



# **City of Owosso, Michigan**

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## **Financial Report with Supplemental Information June 30, 2008**

# City of Owosso, Michigan

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# City of Owosso, Michigan

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## Independent Auditor's Report

To the City Council  
City of Owosso, Michigan

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Owosso, Michigan (the "City") as of and for the year ended June 30, 2008, which collectively comprise the City's basic financial statements as listed in the table of contents. These basic financial statements are the responsibility of the City of Owosso, Michigan's management. Our responsibility is to express opinions on these basic financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the basic financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the basic financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall basic financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Owosso, Michigan as of June 30, 2008 and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis, budgetary comparison schedules, and pension system schedules of funding progress and employer contributions, as identified in the table of contents, are not required parts of the basic financial statements but are supplemental information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management, regarding the methods of measurement and presentation of the required supplemental information. However, we did not audit the information and express no opinion on it.

To the City Council  
City of Owosso, Michigan

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Owosso, Michigan's basic financial statements. The accompanying other supplemental information, as identified in the table of contents, is presented for the purpose of additional analysis and is not a required part of the basic financial statements. The other supplemental information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

*Plante & Moran, PLLC*

December 8, 2008

# City of Owosso, Michigan

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## Management's Discussion and Analysis

The following discussion and analysis of the City of Owosso's (the "City") annual financial report presents our view of the City's financial performance during the fiscal year ended June 30, 2008. Please read it in conjunction with the City's basic financial statements, which follow beginning on page 11.

### **Overview of the Financial Statements**

This annual report consists of the following report sections:

- Management's discussion and analysis (this section)
- Government-wide financial statements
- Fund financial statements
- Notes to financial statements
- Supplemental information
- Combining statements for nonmajor governmental funds

### **Government-wide Financial Statements**

The government-wide financial statements include the statement of net assets (deficit) and the statement of activities. These statements provide both long-term and short-term information about the City's overall financial status. The City's government-wide financial statements begin on page 11 of this report. These statements report information about the City as a whole under the accrual method of accounting, which is similar to the accounting used by most private sector companies. The statement of net assets (deficit) includes both current and long-term assets and liabilities and the statement of activities includes all of the current year's revenues and expenses regardless of when cash is received or paid. The combined objective of the government-wide financial statements is to report the City's net assets and how they have changed. The reporting of net assets is one way to measure the City's financial position.

The City's government-wide financial statements divide the reported information into three categories:

- Governmental activities - Most of the City's basic services are included here, such as police, fire, public works, recreation, and general services. Property taxes, state revenue sharing, and locally raised revenues are used to finance most of these activities.
- Business-type activities - The City charges fees to customers to cover the costs of certain services it provides. The City's water, sewer, wastewater, and contract for transportation services are included in this category.
- Component units - The City includes other legal entities in its report such as the Downtown Development Authority, Tax Increment Financing Authority, and Brownfield Redevelopment Authority. The City is financially accountable for these "component units" although they are legally separate entities.

# City of Owosso, Michigan

## Management's Discussion and Analysis (Continued)

### Fund Financial Statements

The fund financial statements include the balance sheet and statement of revenues, expenditures, and changes in fund balances which begin on page 14 of this report. These statements provide more detailed information about the City's most significant funds. The City uses funds to account for specific sources of funding and spending for particular purposes. Some funds are required by state law and others are established to control and manage money for particular purposes.

The City has three fund types that use different accounting approaches:

- Governmental funds - Most of the City's basic services are included in governmental funds. These funds focus on (1) how cash and other financial assets that can readily be converted to cash, flow in and out and (2) the balances left at year end. These funds are reported using the modified accrual accounting method that measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the City's general government operations and the basic services it provides. Because governmental fund information has a short-term focus and the government-wide statement incorporates long-term information, we reconcile the differences on page 16.
- Proprietary funds - When the City charges customer fees for the services it provides, the fees are generally reported in proprietary funds. Similar to the reporting method used on the government-wide statements, proprietary funds provide both long- and short-term financial information.
  - The City's enterprise funds (water, sewer, wastewater, and transportation) are the business-type activities reported in the government-wide financial statements, but provide more detail in the proprietary funds statements.
  - An Internal Service Fund (the other type of proprietary fund) reports equipment rental services to the City's other programs and activities, which is reported in the Fleet Maintenance Fund.
- Fiduciary funds - The City is the trustee, or fiduciary, for the Employees' Retirement System and also acts as a collection agent for other taxing jurisdictions such as schools and the county. The City is responsible for ensuring that the assets reported in these funds are used for their intended purpose. A separate statement of fiduciary net assets and a statement of changes in fiduciary net assets related to the Employees' Retirement System are presented on pages 20 and 21 of this report. These activities are excluded from the City's government-wide financial statements because the City cannot use these assets to finance its operations.

# City of Owosso, Michigan

## Management's Discussion and Analysis (Continued)

### Financial Highlights

The following table illustrates the varying results of the governmental activities and business-type activities that combine to capture the City's total net assets (in thousands):

|                              | Governmental Activities |                  | Business-type Activities |                  | Total            |                  |
|------------------------------|-------------------------|------------------|--------------------------|------------------|------------------|------------------|
|                              | 2008                    | 2007             | 2008                     | 2007             | 2008             | 2007             |
| <b>Assets</b>                |                         |                  |                          |                  |                  |                  |
| Current assets               | \$ 7,341                | \$ 7,175         | \$ 6,163                 | \$ 6,227         | \$ 13,504        | \$ 13,402        |
| Noncurrent assets            | <u>37,331</u>           | <u>35,756</u>    | <u>14,577</u>            | <u>14,593</u>    | <u>51,908</u>    | <u>50,349</u>    |
| Total assets                 | 44,672                  | 42,931           | 20,740                   | 20,820           | 65,412           | 63,751           |
| <b>Liabilities</b>           |                         |                  |                          |                  |                  |                  |
| Current liabilities          | 1,363                   | 1,587            | 666                      | 416              | 2,029            | 2,003            |
| Long-term liabilities        | <u>1,715</u>            | <u>1,627</u>     | <u>4,530</u>             | <u>4,649</u>     | <u>6,245</u>     | <u>6,276</u>     |
| Total liabilities            | <u>3,078</u>            | <u>3,214</u>     | <u>5,196</u>             | <u>5,065</u>     | <u>8,274</u>     | <u>8,279</u>     |
| <b>Net Assets</b>            |                         |                  |                          |                  |                  |                  |
| Invested in capital assets - |                         |                  |                          |                  |                  |                  |
| Net of related debt          | 35,638                  | 34,243           | 10,072                   | 9,993            | 45,710           | 44,236           |
| Restricted                   | 2,893                   | 2,465            | 2,213                    | 1,956            | 5,106            | 4,421            |
| Unrestricted                 | <u>3,063</u>            | <u>3,009</u>     | <u>3,259</u>             | <u>3,806</u>     | <u>6,322</u>     | <u>6,815</u>     |
| Total net assets             | <u>\$ 41,594</u>        | <u>\$ 39,717</u> | <u>\$ 15,544</u>         | <u>\$ 15,755</u> | <u>\$ 57,138</u> | <u>\$ 55,472</u> |

The net assets of the City's governmental activities increased 4.7 percent to \$41.6 million. Capital investments funded with current resources of \$3.6 million were more than double capital utilization (annual depreciation). Liabilities were also reduced by 4.2 percent from the prior year.

The net assets of our business-type activities declined 1.3 percent to \$15.5 million. The decline was the result of a net income loss of \$295,180 in the Water Fund and \$100,931 in the Wastewater Fund. The Wastewater Fund loss is attributable for the most part to the expensing of capital purchases per agreement of the Mid-County Review Board. The Sewer Fund generated a small surplus that will help finance a multi-year project separating storm and sanitary flows.



# City of Owosso, Michigan

## Management's Discussion and Analysis (Continued)

The following table displays the City's changes in net assets (in thousands):

|  | Governmental Activities |               | Business-type Activities |                | Total           |               |
|--|-------------------------|---------------|--------------------------|----------------|-----------------|---------------|
|  | 2008                    | 2007          | 2008                     | 2007           | 2008            | 2007          |
| <b>Revenue</b>                           |                         |               |                          |                |                 |               |
| Program revenue:                         |                         |               |                          |                |                 |               |
| Charges for services                     | \$ 856                  | \$ 1,052      | \$ 4,473                 | \$ 4,433       | \$ 5,329        | \$ 5,485      |
| Operating grants and contributions       | 1,122                   | 1,030         | -                        | -              | 1,122           | 1,030         |
| Capital grants and contributions         | 2,177                   | 1,025         | 248                      | 403            | 2,425           | 1,428         |
| General revenue:                         |                         |               |                          |                |                 |               |
| Property taxes                           | 3,892                   | 3,810         | -                        | 40             | 3,892           | 3,850         |
| State-shared revenue and other sources   | 1,919                   | 1,868         | -                        | -              | 1,919           | 1,868         |
| Unrestricted investment earnings         | 211                     | 289           | 219                      | 283            | 430             | 572           |
| Miscellaneous                            | 383                     | 128           | -                        | -              | 383             | 128           |
| Transfers in                             | -                       | -             | 23                       | -              | 23              | -             |
| Total revenue                            | 10,560                  | 9,202         | 4,963                    | 5,159          | 15,523          | 14,361        |
| <b>Program Expenses</b>                  |                         |               |                          |                |                 |               |
| General government                       | 1,291                   | 1,443         | -                        | -              | 1,291           | 1,443         |
| Public safety                            | 3,136                   | 3,420         | -                        | -              | 3,136           | 3,420         |
| Public works                             | 3,651                   | 3,125         | -                        | -              | 3,651           | 3,125         |
| Community and economic development       | 244                     | 348           | -                        | -              | 244             | 348           |
| Recreation and culture                   | 300                     | 88            | -                        | -              | 300             | 88            |
| Interest on long-term debt               | 38                      | 15            | -                        | -              | 38              | 15            |
| Water supply system                      | -                       | -             | 2,143                    | 2,068          | 2,143           | 2,068         |
| Sewage disposal system                   | -                       | -             | 1,389                    | 1,453          | 1,389           | 1,453         |
| Wastewater treatment system              | -                       | -             | 1,618                    | 1,643          | 1,618           | 1,643         |
| Shaiwassee Area Transportation Authority | -                       | -             | 23                       | 40             | 23              | 40            |
| Transfers out                            | 23                      | -             | -                        | -              | 23              | -             |
| Total program expenses                   | 8,683                   | 8,439         | 5,173                    | 5,204          | 13,856          | 13,643        |
| <b>Change in Net Assets</b>              | <b>\$ 1,877</b>         | <b>\$ 763</b> | <b>\$ (210)</b>          | <b>\$ (45)</b> | <b>\$ 1,667</b> | <b>\$ 718</b> |

# City of Owosso, Michigan

## Management's Discussion and Analysis (Continued)

### Governmental Activities

#### Summary:

- The cost of all governmental activities this year was \$8.7 million.
- The amount that City taxpayers paid for these activities through City taxes was \$3.9 million or 45.0 percent.
- \$6.1 million was paid by the beneficiaries of the program's activities or by other governments and organizations that subsidized certain programs with grants and contributions.

#### Analysis:

##### Revenues

- Charge for services/sales - The year-over-year decline reflects a reduction in lot sales at Osburn Lakes Subdivision from 10 sales to one this year. Of the 83 lots developed, 29 remain.
- Property taxes, including levies for bonded debt and Holman Pool, were in line with inflation, up 2.2 percent.
- State-shared revenues - Sales tax distributions were flat, and reimbursement revenue for state trunkline winter maintenance was up 69.0 percent.
- Operating and capital grants and contributions - The replacement of the Oliver Street bridge and repaving a section of Chestnut Street with grant funds accounted for a 60.0 percent increase from last year.
- Miscellaneous revenue - Revenue increased substantially over the prior year due to reauthorization of cable franchise fees, major donation for the loop walking trail, sale of land for an industrial expansion on Cass Street, and return of advances made to a component unit.

##### Expenses

- General government - The manager's position was vacant for the first quarter, and legal fees and depreciation were both down, resulting in a 10.0 percent decline year over year.
- Public safety - Operational expenses were down slightly at 2.0 percent; capital expenses were \$708,900.
- Community and economic development - Fewer projects were initiated, reducing expenses by 30.0 percent, in a year of transition when the director retired mid-year.

# City of Owosso, Michigan

## Management's Discussion and Analysis (Continued)

- Public works - Winter maintenance expenses were up 92.0 percent year over year, driving public works expenses up 5.0 percent and adjusting off the carrying value of certain streets constructed prior to 1980 utilizing a deflated price multiplier.

### Business-type Activities

#### Summary:

- Total revenues and operating expenses of the City's business-type activities (water, sewer, wastewater, and Shiawassee Area Transportation Agency) were \$4.96 million and \$5.17 million, respectively. The combined net loss was \$210,000.

#### Analysis:

##### Revenues

- Capital grants and contributions - The City received an S2 state grant last year for planning and design of further separation of storm flows from the sanitary system.
- Charges for services - Sales in the Water and Sewer Funds were down again this year. Charges in the Wastewater Fund were up 5.0 percent, resulting in sales for business-type activities to be flat.

##### Expenses

- Sewer Fund - Expenses were down 4.4 percent from the prior year.
- Wastewater Fund - Expenses were down 1.5 percent.
- Water Fund - Expenses were up 3.6 percent due to increased residuals management expenses related to the removal of spent lime at the treatment plant.

### The City's Funds

As the City completed the year, its governmental funds (see pages 14 and 15) reported a combined fund balance of \$5.7 million.

- The General Fund finished the year in the black with \$77,649 of revenue in excess of expenditures, of which \$18,721 is reserved for pool operations next year
- State revenue sharing, which represents 26.5 percent of the General Fund revenues, remains unchanged from the prior year.
- Property tax revenues, the greatest share of revenue for the General Fund at 56.0 percent, increased 2.6 percent excluding the special voted pool levy.

# City of Owosso, Michigan

## Management's Discussion and Analysis (Continued)

- Employment levels were down due to attrition and voluntary separation. A defined contribution plan with an employer match up to 4.0 percent replaced the defined benefit plan for all new employees except for certain union groups.
- The other governmental funds also finished the year, albeit slight, in positive territory.

### General Fund Budgetary Highlights

Overall, revenues were up 2.8 percent from last year. Expenditures from recurring operations increased less than 1.0 percent this year over last. The City invested \$857,400 for capital outlay and contributed \$594,600 to other funds for capital expenditures for a total capital investment of \$1,452,000. The public safety department continues to represent the largest component of General Fund operations at 60.0 percent of total expenditures this year.

### Capital Assets

At June 30, 2008, the City had increased investment in capital assets by \$3.5 million to \$93.3 million in a broad range of capital assets, as detailed in the table below and Note 5 of the financial statements starting on page 37. Streets, sidewalks, and bridges continue to be the largest category of investment at 47.0 percent.

|                          | Governmental Activities |                      | Business-type Activities |                      | Total                |                      |
|--------------------------|-------------------------|----------------------|--------------------------|----------------------|----------------------|----------------------|
|                          | 2008                    | 2007                 | 2008                     | 2007                 | 2008                 | 2007                 |
| Land                     | \$ 4,482,899            | \$ 4,483,838         | \$ 451,314               | \$ 451,314           | \$ 4,934,213         | \$ 4,935,152         |
| Construction in progress | -                       | 283,050              | 490,886                  | -                    | 490,886              | 283,050              |
| Roads and sidewalks      | 43,727,560              | 41,711,992           | -                        | -                    | 43,727,560           | 41,711,992           |
| Land improvements        | 1,822,203               | 1,379,711            | 8,508,838                | 8,325,665            | 10,331,041           | 9,705,376            |
| Buildings                | 2,752,317               | 2,790,192            | 13,239,935               | 13,239,935           | 15,992,252           | 16,030,127           |
| Vehicles                 | 3,937,695               | 3,267,544            | 63,657                   | 63,657               | 4,001,352            | 3,331,201            |
| Office furnishings       | 1,404,129               | 1,404,129            | -                        | -                    | 1,404,129            | 1,404,129            |
| Machinery and equipment  | 2,096,768               | 2,070,503            | 10,342,793               | 10,342,793           | 12,439,561           | 12,413,296           |
| Subtotal assets          | 60,223,571              | 57,390,959           | 33,097,423               | 32,423,364           | 93,320,994           | 89,814,323           |
| Accumulated depreciation | 22,892,472              | 21,634,958           | 18,519,811               | 17,830,340           | 41,412,283           | 39,465,298           |
| Net capital assets       | <u>\$ 37,331,099</u>    | <u>\$ 35,756,001</u> | <u>\$ 14,577,612</u>     | <u>\$ 14,593,024</u> | <u>\$ 51,908,711</u> | <u>\$ 50,349,025</u> |

### Debt

At year end, the City had \$1.69 million in governmental activities debt and \$4.5 million in business-type activities of bonds and notes outstanding. The City retired \$576,000 of bonds and notes maturing during the year. More detailed information about the City's long-term liabilities is presented in Note 7 beginning on page 40 to the financial statements.

# **City of Owosso, Michigan**

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## **Management's Discussion and Analysis (Continued)**

### **Economic Factors and Next Year's Budget and Rates**

The millage rate for fiscal year 2009 is 13.6139. Of that amount, debt millage is .2894 of a mill, and special voted millage to operate the swimming pool and subsidize mass transportation are .1993 and .0882 mills, respectively. State revenue sharing to the City, which represents the second largest source of General Fund revenue, is projected to continue to decline in fiscal year 2009, down more than 20.0 percent nominally since 2001.

Total expenditures in the General Fund for the 2009 fiscal year are set at \$7.4 million. Capital outlay expenditures are set at \$1.3 million. The General Fund budget is in balance without a draw from fund balance.

### **Contacting the City's Financial Management**

This financial report is intended to provide citizens, taxpayers, customers, and investors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have any questions about this report or need additional information, we welcome you to contact the finance director's office at the City of Owosso, 301 E. Main Street, Owosso, Michigan 48867 or visit the City's website at [www.ci.owosso.mi.us](http://www.ci.owosso.mi.us) to email questions or comments.

# City of Owosso, Michigan

## Statement of Net Assets (Deficit) June 30, 2008

|  | Primary Government   |                      |                      | Component           |
|--|----------------------|----------------------|----------------------|---------------------|
|  | Governmental         | Business-type        |                      | Units               |
|  | Activities           | Activities           | Total                |                     |
| <b>Assets</b>                                    |                      |                      |                      |                     |
| Cash and investments (Note 3)                    | \$ 4,865,360         | \$ 3,400,511         | \$ 8,265,871         | \$ 29,033           |
| Receivables - Net (Note 4)                       | 2,052,911            | 444,373              | 2,497,284            | 250,102             |
| Internal balances                                | 64,046               | (64,046)             | -                    | -                   |
| Inventories and land held for sale               | 332,926              | 149,856              | 482,782              | 89,812              |
| Prepaid costs and other assets                   | 25,824               | 19,247               | 45,071               | -                   |
| Restricted assets (Note 8)                       | -                    | 2,213,016            | 2,213,016            | -                   |
| Capital assets - Net (Note 5):                   |                      |                      |                      |                     |
| Nondepreciable                                   | 4,482,899            | 942,200              | 5,425,099            | -                   |
| Depreciable                                      | 32,848,200           | 13,635,412           | 46,483,612           | -                   |
| Total assets                                     | 44,672,166           | 20,740,569           | 65,412,735           | 368,947             |
| <b>Liabilities</b>                               |                      |                      |                      |                     |
| Accounts payable                                 | 331,927              | 314,681              | 646,608              | 383,624             |
| Accrued and other liabilities                    | 259,463              | 196,653              | 456,116              | -                   |
| Deferred revenue (Note 4)                        | 90,251               | -                    | 90,251               | -                   |
| Noncurrent liabilities (Note 7):                 |                      |                      |                      |                     |
| Due within one year                              | 681,688              | 154,640              | 836,328              | 20,924              |
| Due in more than one year                        | 1,715,266            | 4,530,155            | 6,245,421            | 253,459             |
| Total liabilities                                | 3,078,595            | 5,196,129            | 8,274,724            | 658,007             |
| <b>Net Assets (Deficit)</b>                      |                      |                      |                      |                     |
| Invested in capital assets - Net of related debt | 35,637,447           | 10,072,612           | 45,710,059           | -                   |
| Restricted:                                      |                      |                      |                      |                     |
| Improvement and Replacement Fund                 | 844,628              | 1,863,016            | 2,707,644            | -                   |
| Revenue bond reserve                             | -                    | 350,000              | 350,000              | -                   |
| Streets and highways                             | 361,279              | -                    | 361,279              | -                   |
| Debt service                                     | 526,929              | -                    | 526,929              | -                   |
| Federal revolving loan program                   | 1,029,987            | -                    | 1,029,987            | -                   |
| Other purposes                                   | 130,423              | -                    | 130,423              | -                   |
| Unrestricted (deficit)                           | 3,062,878            | 3,258,812            | 6,321,690            | (289,060)           |
| Total net assets (deficit)                       | <u>\$ 41,593,571</u> | <u>\$ 15,544,440</u> | <u>\$ 57,138,011</u> | <u>\$ (289,060)</u> |

# City of Owosso, Michigan

| Functions/Programs                              | Expenses             | Program Revenues     |                                    |                                  |
|---|----------------------|----------------------|------------------------------------|----------------------------------|
|   |                      | Charges for Services | Operating Grants and Contributions | Capital Grants and Contributions |
| Primary government:                             |                      |                      |                                    |                                  |
| Governmental activities:                        |                      |                      |                                    |                                  |
| General government                              | \$ 1,291,373         | \$ 26,057            | \$ -                               | \$ -                             |
| Public safety                                   | 3,135,822            | 595,150              | -                                  | -                                |
| Public works                                    | 3,651,196            | 87,362               | 1,097,257                          | 1,814,512                        |
| Community and economic development              | 243,636              | 133,578              | -                                  | -                                |
| Recreation and culture                          | 299,945              | 13,907               | 24,431                             | 362,000                          |
| Interest on long-term debt                      | 38,004               | -                    | -                                  | -                                |
| Total governmental activities                   | 8,659,976            | 856,054              | 1,121,688                          | 2,176,512                        |
| Business-type activities:                       |                      |                      |                                    |                                  |
| Water supply system                             | 2,143,682            | 1,757,923            | -                                  | 51,011                           |
| Sewage disposal system                          | 1,389,069            | 1,453,350            | -                                  | 11,414                           |
| Wastewater treatment system                     | 1,617,830            | 1,261,931            | -                                  | 185,999                          |
| Shiawassee Area Transportation Authority        | 22,838               | -                    | -                                  | -                                |
| Total business-type activities                  | 5,173,419            | 4,473,204            | -                                  | 248,424                          |
| Total primary government                        | <u>\$ 13,833,395</u> | <u>\$ 5,329,258</u>  | <u>\$ 1,121,688</u>                | <u>\$ 2,424,936</u>              |
| Component units:                                |                      |                      |                                    |                                  |
| Downtown Development Authority                  | \$ 386,876           | \$ -                 | \$ 6,000                           | \$ -                             |
| Local Development Financing Authority II        | 30,180               | -                    | -                                  | -                                |
| Brownfield Redevelopment Authority              | 260,054              | -                    | 12,350                             | -                                |
| Total component units                           | <u>\$ 677,110</u>    | <u>\$ -</u>          | <u>\$ 18,350</u>                   | <u>\$ -</u>                      |
| General revenues:                               |                      |                      |                                    |                                  |
| Property taxes                                  |                      |                      |                                    |                                  |
| State-shared revenues and other sources         |                      |                      |                                    |                                  |
| Unrestricted investment earnings                |                      |                      |                                    |                                  |
| Miscellaneous                                   |                      |                      |                                    |                                  |
| Transfers                                       |                      |                      |                                    |                                  |
| Total general revenues and transfers            |                      |                      |                                    |                                  |
| <b>Change in Net Assets</b>                     |                      |                      |                                    |                                  |
| <b>Net Assets (Deficit) - Beginning of year</b> |                      |                      |                                    |                                  |
| <b>Net Assets (Deficit) - End of year</b>       |                      |                      |                                    |                                  |

**Statement of Activities**  
**Year Ended June 30, 2008**

| Net (Expense) Revenue and Changes in Net Assets |                             |                      |                     |
|---|-----------------------------|----------------------|---------------------|
| Primary Government                              |                             |                      | Component<br>Units  |
| Governmental<br>Activities                      | Business-type<br>Activities | Total                |                     |
| \$ (1,265,316)                                  | \$ -                        | \$ (1,265,316)       | \$ -                |
| (2,540,672)                                     | -                           | (2,540,672)          | -                   |
| (652,065)                                       | -                           | (652,065)            | -                   |
| (110,058)                                       | -                           | (110,058)            | -                   |
| 100,393   | -                           | 100,393              | -                   |
| (38,004)  | -                           | (38,004)             | -                   |
| (4,505,722)                                     | -                           | (4,505,722)          | -                   |
| -   | (334,748)                   | (334,748)            | -                   |
| -   | 75,695                      | 75,695               | -                   |
| -   | (169,900)                   | (169,900)            | -                   |
| -   | (22,838)                    | (22,838)             | -                   |
| -   | (451,791)                   | (451,791)            | -                   |
| (4,505,722)                                     | (451,791)                   | (4,957,513)          | -                   |
| -   | -                           | -                    | (380,876)           |
| -   | -                           | -                    | (30,180)            |
| -   | -                           | -                    | (247,704)           |
| -   | -                           | -                    | (658,760)           |
| 3,892,289                                       | -                           | 3,892,289            | 376,528             |
| 1,919,122                                       | -                           | 1,919,122            | -                   |
| 210,961   | 218,883                     | 429,844              | 51                  |
| 383,059   | -                           | 383,059              | 43                  |
| (22,743)  | 22,743                      | -                    | -                   |
| 6,382,688                                       | 241,626                     | 6,624,314            | 376,622             |
| 1,876,966                                       | (210,165)                   | 1,666,801            | (282,138)           |
| 39,716,605                                      | 15,754,605                  | 55,471,210           | (6,922)             |
| <b>\$ 41,593,571</b>                            | <b>\$ 15,544,440</b>        | <b>\$ 57,138,011</b> | <b>\$ (289,060)</b> |



# City of Owosso, Michigan

## Governmental Funds Balance Sheet June 30, 2008

|  | General Fund        | Major<br>Streets Fund | Subdivision<br>Fund | Other<br>Nonmajor<br>Governmental<br>Funds | Total<br>Governmental<br>Funds |
|--|---------------------|-----------------------|---------------------|--|--------------------------------|
| <b>Assets</b>                                    |                     |                       |                     |  |                                |
| Cash and investments (Note 3)                    | \$ 3,780,677        | \$ 2,189              | \$ -                | \$ 1,082,494                               | \$ 4,865,360                   |
| Receivables - Net (Note 4)                       | 808,727             | 292,980               | -                   | 951,204                                    | 2,052,911                      |
| Prepaid costs and other assets                   | 25,824              | -                     | -                   | -  | 25,824                         |
| Due from other funds (Note 6)                    | 1,091,448           | 42,134                | -                   | 859,472                                    | 1,993,054                      |
| Inventories and land held for sale               | 88,926              | -                     | 244,000             | -  | 332,926                        |
| Total assets                                     | <u>\$ 5,795,602</u> | <u>\$ 337,303</u>     | <u>\$ 244,000</u>   | <u>\$ 2,893,170</u>                        | <u>\$ 9,270,075</u>            |
| <b>Liabilities and Fund Balances (Deficit)</b>   |                     |                       |                     |  |                                |
| <b>Liabilities</b>                               |                     |                       |                     |  |                                |
| Accounts payable                                 | \$ 116,736          | \$ 65,095             | \$ -                | \$ 52,121                                  | \$ 233,952                     |
| Accrued and other liabilities                    | 238,867             | 655                   | -                   | 956  | 240,478                        |
| Due to other funds                               | 1,430,293           | 91,581                | 564,050             | 103,335                                    | 2,189,259                      |
| Due to other governmental units                  | 66,887              | -                     | -                   | 2,150                                      | 69,037                         |
| Deferred revenue (Note 4)                        | 345,685             | 176,442               | -                   | 266,971                                    | 789,098                        |
| Total liabilities                                | 2,198,468           | 333,773               | 564,050             | 425,533                                    | 3,521,824                      |
| <b>Fund Balances (Deficit)</b>                   |                     |                       |                     |  |                                |
| Reserved for subdivision deficit                 | 564,050             | -                     | -                   | -  | 564,050                        |
| Reserved for other purposes:                     |                     |                       |                     |  |                                |
| General Fund                                     | 187,877             | -                     | -                   | -  | 187,877                        |
| Special Revenue Funds                            | -                   | -                     | -                   | 616,506                                    | 616,506                        |
| Capital Projects Funds                           | -                   | -                     | 244,000             | -  | 244,000                        |
| Designated for:                                  |                     |                       |                     |  |                                |
| Compensated absences                             | 288,864             | -                     | -                   | -  | 288,864                        |
| Special assessed property reversions             | 100,000             | -                     | -                   | -  | 100,000                        |
| Economic development projects                    | 500,000             | -                     | -                   | -  | 500,000                        |
| Hotel demolition grant reversion                 | 247,400             | -                     | -                   | -  | 247,400                        |
| Owosso drain project                             | 142,325             | -                     | -                   | -  | 142,325                        |
| Unreserved (deficit), reported in:               |                     |                       |                     |  |                                |
| General Fund                                     | 1,566,618           | -                     | -                   | -  | 1,566,618                      |
| Special Revenue Funds                            | -                   | 3,530                 | (564,050)           | 1,315,831                                  | 755,311                        |
| Debt Service Funds                               | -                   | -                     | -                   | 526,929                                    | 526,929                        |
| Capital Projects Funds                           | -                   | -                     | -                   | 8,371                                      | 8,371                          |
| Total fund balances (deficit)                    | <u>3,597,134</u>    | <u>3,530</u>          | <u>(320,050)</u>    | <u>2,467,637</u>                           | <u>5,748,251</u>               |
| Total liabilities and<br>fund balances (deficit) | <u>\$ 5,795,602</u> | <u>\$ 337,303</u>     | <u>\$ 244,000</u>   | <u>\$ 2,893,170</u>                        |                                |

Amounts reported for governmental activities in the statement of net assets are different because:

|  |             |
|--|-------------|
| Capital assets used in governmental activities are not financial resources and are not reported in the funds   | 36,025,909  |
| Special assessment, revolving loan, and other receivables are expected to be collected over several years and are not available to pay for current year expenditures | 698,847     |
| Long-term liabilities are not due and payable in the current period and are not reported in the funds  | (2,220,926) |
| Internal Service Funds are included as part of governmental activities   | 1,341,490   |

Net assets of governmental activities

\$ 41,593,571

# City of Owosso, Michigan

## Governmental Funds Statement of Revenue, Expenditures, and Changes in Fund Balances (Deficit) Year Ended June 30, 2008

|  | General Fund        | Major<br>Streets Fund | Subdivision Fund    | Other<br>Governmental<br>Funds | Total<br>Governmental<br>Funds |
|--|---------------------|-----------------------|---------------------|--------------------------------|--------------------------------|
| <b>Revenue</b>                                     |                     |                       |                     |                                |                                |
| Property taxes                                     | \$ 3,680,631        | \$ -                  | \$ -                | \$ 81,775                      | \$ 3,762,406                   |
| Licenses and permits                               | 118,078             | -                     | -                   | -                              | 118,078                        |
| Federal grants                                     | 280                 | 98,707                | -                   | -                              | 98,987                         |
| State and local sources                            | 1,777,844           | 2,622,096             | -                   | 434,168                        | 4,834,108                      |
| Charges for services                               | 570,633             | 87,362                | -                   | 62,901                         | 720,896                        |
| Fines and forfeitures                              | 51,299              | -                     | -                   | -                              | 51,299                         |
| Interest and rentals                               | 194,279             | -                     | -                   | 21,513                         | 215,792                        |
| Other  | 227,843             | -                     | 15,500              | 65,595                         | 308,938                        |
| Total revenue                                      | 6,620,887           | 2,808,165             | 15,500              | 665,952                        | 10,110,504                     |
| <b>Expenditures</b>                                |                     |                       |                     |                                |                                |
| Current services:                                  |                     |                       |                     |                                |                                |
| General government                                 | 1,289,694           | -                     | -                   | -                              | 1,289,694                      |
| Public safety                                      | 3,953,201           | -                     | -                   | -                              | 3,953,201                      |
| Public works                                       | 881,211             | 2,983,682             | -                   | 692,587                        | 4,557,480                      |
| Recreation and culture                             | 237,222             | -                     | -                   | 54,413                         | 291,635                        |
| Community and economic development                 | 248,808             | -                     | 3,980               | 4,228                          | 257,016                        |
| Debt service                                       | -                   | -                     | -                   | 304,563                        | 304,563                        |
| Total expenditures                                 | 6,610,136           | 2,983,682             | 3,980               | 1,055,791                      | 10,653,589                     |
| <b>Excess of Revenue Over (Under) Expenditures</b> | 10,751              | (175,517)             | 11,520              | (389,839)                      | (543,085)                      |
| <b>Other Financing Sources (Uses)</b>              |                     |                       |                     |                                |                                |
| Transfers in (Note 6)                              | -                   | 355,437               | -                   | 396,358                        | 751,795                        |
| Transfers out (Note 6)                             | (594,600)           | (177,893)             | -                   | (2,045)                        | (774,538)                      |
| Proceeds from issuance of debt                     | 661,498             | -                     | -                   | -                              | 661,498                        |
| Total other financing sources                      | 66,898              | 177,544               | -                   | 394,313                        | 638,755                        |
| <b>Net Change in Fund Balances</b>                 | 77,649              | 2,027                 | 11,520              | 4,474                          | 95,670                         |
| <b>Fund Balances (Deficit) - Beginning of year</b> | 3,519,485           | 1,503                 | (331,570)           | 2,463,163                      | 5,652,581                      |
| <b>Fund Balances (Deficit) - End of year</b>       | <u>\$ 3,597,134</u> | <u>\$ 3,530</u>       | <u>\$ (320,050)</u> | <u>\$ 2,467,637</u>            | <u>\$ 5,748,251</u>            |

# City of Owosso, Michigan

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## **Governmental Funds Reconciliation of the Statement of Revenue, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities Year Ended June 30, 2008**

|   |                  |
|---|------------------|
| <b>Net Change in Fund Balances - Total Governmental Funds</b> | <b>\$ 95,670</b> |
|---|------------------|

Amounts reported for governmental activities in the statement of activities are different because:

|   |                |
|---|----------------|
| Governmental funds report capital outlays as expenditures; in the statement of activities, these costs are allocated over their estimated useful lives as depreciation                    | 2,516,823      |
| Depreciation on general fixed assets is recorded in the statement of activities; it is not reported at the fund level   | (1,161,454)    |
| Governmental funds do not report the donation of capital assets; in the statement of activities, donations are reported as capital contributions and are expensed over their useful lives | 367,500        |
| Revenues are recorded in the statement of activities when they are earned; they are not reported in the funds until collected or collectible within 60 days of year end                   | 86,867         |
| Repayment of bond principal is an expenditure in the governmental funds, but not in the statement of activities (where it reduces long-term debt)   | 413,955        |
| Bond proceeds are not reported as financing sources on the statement of activities  | (661,498)      |
| Interest expense is recorded in the statement of activities when incurred; it is not reported in the funds until paid or payable within 60 days of year end                               | 1,834          |
| Increase in accumulated sick and vacation pay, as well as estimated general liability claims, is recorded when earned in the statement of activities                                      | 8,489          |
| Internal Service Funds are also included as governmental activities   | <u>208,780</u> |

|  |                            |
|--|----------------------------|
| <b>Change in Net Assets of Governmental Activities</b> | <b><u>\$ 1,876,966</u></b> |
|--|----------------------------|

# City of Owosso, Michigan

## Proprietary Funds Statement of Net Assets (Deficit) June 30, 2008

|   | Enterprise Funds       |                           |                                   |                        |                             | Governmental<br>Activities |
|---|------------------------|---------------------------|-----------------------------------|------------------------|-----------------------------|----------------------------|
|   | Major Funds            |                           | Nonmajor Fund                     |                        | Total                       |                            |
|   | Water Supply<br>System | Sewage Disposal<br>System | Wastewater<br>Treatment<br>System | Transportation<br>Fund | Business-type<br>Activities | Internal<br>Service Fund   |
| <b>Assets</b>                                       |                        |                           |                                   |                        |                             |                            |
| Current assets:                                     |                        |                           |                                   |                        |                             |                            |
| Cash and investments (Note 3)                       | \$ 1,950,095           | \$ 1,289,485              | \$ 160,908                        | \$ 23                  | \$ 3,400,511                | \$ -                       |
| Receivables - Net (Note 4)                          | 428,934                | 105                       | 15,334                            | -                      | 444,373                     | -                          |
| Due from other funds (Note 6)                       | 69,200                 | 279,528                   | 99,247                            | -                      | 447,975                     | 260,251                    |
| Inventories   | 149,856                | -                         | -                                 | -                      | 149,856                     | -                          |
| Prepaid costs and other assets                      | 19,247                 | -                         | -                                 | -                      | 19,247                      | -                          |
| Total current assets                                | 2,617,332              | 1,569,118                 | 275,489                           | 23                     | 4,461,962                   | 260,251                    |
| Noncurrent assets:                                  |                        |                           |                                   |                        |                             |                            |
| Restricted assets (Note 8)                          | 350,000                | -                         | 1,863,016                         | -                      | 2,213,016                   | -                          |
| Capital assets (Note 5)                             | 9,229,637              | 1,405,783                 | 3,942,192                         | -                      | 14,577,612                  | 1,305,190                  |
| Total noncurrent assets                             | 9,579,637              | 1,405,783                 | 5,805,208                         | -                      | 16,790,628                  | 1,305,190                  |
| Total assets  | 12,196,969             | 2,974,901                 | 6,080,697                         | 23                     | 21,252,590                  | 1,565,441                  |
| <b>Liabilities</b>                                  |                        |                           |                                   |                        |                             |                            |
| Current liabilities:                                |                        |                           |                                   |                        |                             |                            |
| Accounts payable                                    | 94,945                 | 209,980                   | 9,756                             | -                      | 314,681                     | 28,937                     |
| Accrued and other liabilities                       | 171,013                | 6,392                     | 19,248                            | -                      | 196,653                     | 10,983                     |
| Due to other funds (Note 6)                         | 463,133                | 46,992                    | 1,896                             | -                      | 512,021                     | -                          |
| Current portion of compensated<br>absences (Note 7) | 18,617                 | 6,636                     | 14,387                            | -                      | 39,640                      | 4,405                      |
| Current portion of long-term<br>debt (Note 7)       | 115,000                | -                         | -                                 | -                      | 115,000                     | 70,402                     |
| Total current liabilities                           | 862,708                | 270,000                   | 45,287                            | -                      | 1,177,995                   | 114,727                    |
| Noncurrent liabilities (Note 7):                    |                        |                           |                                   |                        |                             |                            |
| Provision for compensated absences                  | 63,681                 | 25,461                    | 51,013                            | -                      | 140,155                     | 13,517                     |
| Long-term debt - Net of current<br>portion          | 4,390,000              | -                         | -                                 | -                      | 4,390,000                   | 95,707                     |
| Total noncurrent liabilities                        | 4,453,681              | 25,461                    | 51,013                            | -                      | 4,530,155                   | 109,224                    |
| Total liabilities                                   | 5,316,389              | 295,461                   | 96,300                            | -                      | 5,708,150                   | 223,951                    |
| <b>Net Assets (Deficit)</b>                         |                        |                           |                                   |                        |                             |                            |
| Invested in capital assets - Net of<br>related debt | 4,724,637              | 1,405,783                 | 3,942,192                         | -                      | 10,072,612                  | 1,139,081                  |
| Restricted for:                                     |                        |                           |                                   |                        |                             |                            |
| Revenue bond reserve                                | 350,000                | -                         | -                                 | -                      | 350,000                     | -                          |
| Improvement Fund                                    | -                      | -                         | 353,242                           | -                      | 353,242                     | -                          |
| Replacement Fund                                    | -                      | -                         | 1,509,774                         | -                      | 1,509,774                   | -                          |
| Unrestricted  | 1,805,943              | 1,273,657                 | 179,189                           | 23                     | 3,258,812                   | 202,409                    |
| Total net assets                                    | <u>\$ 6,880,580</u>    | <u>\$ 2,679,440</u>       | <u>\$ 5,984,397</u>               | <u>\$ 23</u>           | <u>\$ 15,544,440</u>        | <u>\$ 1,341,490</u>        |

# City of Owosso, Michigan

## Proprietary Funds Statement of Revenue, Expenses, and Changes in Net Assets Year Ended June 30, 2008

|   | Enterprise Funds    |                        |                             |                     |                                | Governmental          |
|---|---------------------|------------------------|-----------------------------|---------------------|--------------------------------|-----------------------|
|   | Major Funds         |                        |                             | Nonmajor Fund       |                                | Activities            |
|   | Water Supply System | Sewage Disposal System | Wastewater Treatment System | Transportation Fund | Total Business-type Activities | Internal Service Fund |
| <b>Operating Revenue</b>                                  |                     |                        |                             |                     |                                |                       |
| Sale of water   | \$ 1,705,887        | \$ -                   | \$ -                        | \$ -                | \$ 1,705,887                   | \$ -                  |
| Sewage disposal charges                                   | -                   | 1,441,602              | -                           | -                   | 1,441,602                      | -                     |
| State sources   | -                   | 11,414                 | -                           | -                   | 11,414                         | -                     |
| Other charges for services                                | -                   | -                      | 1,260,000                   | -                   | 1,260,000                      | 714,489               |
| Total operating revenue                                   | 1,705,887           | 1,453,016              | 1,260,000                   | -                   | 4,418,903                      | 714,489               |
| <b>Operating Expenses</b>                                 |                     |                        |                             |                     |                                |                       |
| Personnel services  | 751,213             | 166,352                | 528,828                     | -                   | 1,446,393                      | -                     |
| Administrative and engineering services                   | 190,000             | 38,000                 | 153,452                     | -                   | 381,452                        | 124,061               |
| Contractual and professional services                     | 57,478              | 75,206                 | 27,853                      | 22,838              | 183,375                        | 5,080                 |
| Supplies and chemicals                                    | 152,526             | 16,803                 | 87,929                      | -                   | 257,258                        | -                     |
| Utilities   | 96,681              | 1,779                  | 207,987                     | -                   | 306,447                        | -                     |
| Insurance   | 78,292              | 16,398                 | 56,570                      | -                   | 151,260                        | 59,790                |
| Maintenance   | 295,058             | 70,491                 | 137,540                     | -                   | 503,089                        | 62,820                |
| Plant charges   | -                   | 944,252                | -                           | -                   | 944,252                        | -                     |
| Depreciation  | 302,458             | 28,981                 | 358,032                     | -                   | 689,471                        | 242,026               |
| Total operating expenses                                  | 1,923,706           | 1,358,262              | 1,558,191                   | 22,838              | 4,862,997                      | 493,777               |
| <b>Operating Income (Loss)</b>                            | (217,819)           | 94,754                 | (298,191)                   | (22,838)            | (444,094)                      | 220,712               |
| <b>Nonoperating Revenue (Expenses)</b>                    |                     |                        |                             |                     |                                |                       |
| Investment income   | 90,579              | 59,335                 | 68,969                      | -                   | 218,883                        | -                     |
| Rent income   | 8,262               | -                      | -                           | -                   | 8,262                          | -                     |
| Replacement charges                                       | -                   | -                      | 185,999                     | -                   | 185,999                        | -                     |
| Equipment replacement cost                                | -                   | -                      | (58,800)                    | -                   | (58,800)                       | -                     |
| Reimbursements and miscellaneous income                   | 12,670              | 1,378                  | 1,931                       | -                   | 15,979                         | -                     |
| Permits   | 31,104              | 10,370                 | -                           | -                   | 41,474                         | -                     |
| Miscellaneous expense                                     | (9,989)             | (30,807)               | (839)                       | -                   | (41,635)                       | -                     |
| Interest expense  | (209,987)           | -                      | -                           | -                   | (209,987)                      | (11,932)              |
| Total nonoperating revenue (expenses)                     | (77,361)            | 40,276                 | 197,260                     | -                   | 160,175                        | (11,932)              |
| <b>Income (Loss) - Before transfers and contributions</b> | (295,180)           | 135,030                | (100,931)                   | (22,838)            | (283,919)                      | 208,780               |
| <b>Transfers In (Note 6)</b>                              | -                   | -                      | -                           | 22,743              | 22,743                         | -                     |
| <b>Capital Contributions</b>                              | 51,011              | -                      | -                           | -                   | 51,011                         | -                     |
| <b>Changes in Net Assets</b>                              | (244,169)           | 135,030                | (100,931)                   | (95)                | (210,165)                      | 208,780               |
| <b>Net Assets - Beginning of year</b>                     | 7,124,749           | 2,544,410              | 6,085,328                   | 118                 | 15,754,605                     | 1,132,710             |
| <b>Net Assets - End of year</b>                           | <u>\$ 6,880,580</u> | <u>\$ 2,679,440</u>    | <u>\$ 5,984,397</u>         | <u>\$ 23</u>        | <u>\$ 15,544,440</u>           | <u>\$ 1,341,490</u>   |

The Notes to Financial Statements are an Integral Part of this Statement.

# City of Owosso, Michigan

## Proprietary Funds Statement of Cash Flows Year Ended June 30, 2008

|   | Enterprise Funds       |                           |                                |                        |                        | Governmental<br>Activities |
|---|------------------------|---------------------------|--------------------------------|------------------------|------------------------|----------------------------|
|   | Major Funds            |                           |                                | Nonmajor Fund          | Total                  |                            |
|   | Water Supply<br>System | Sewage Disposal<br>System | Wastewater<br>Treatment System | Transportation<br>Fund | Business-type<br>Funds | Internal Service<br>Fund   |
| <b>Cash Flows from Operating Activities</b>   |                        |                           |                                |                        |                        |                            |
| Receipts from customers   | \$ 1,787,751           | \$ 1,433,996              | \$ 1,244,666                   | \$ -                   | \$ 4,466,413           | \$ 396,047                 |
| Payments to employees   | (764,877)              | (164,930)                 | (520,222)                      | -                      | (1,450,029)            | (121,958)                  |
| Payments to suppliers   | (826,379)              | (955,715)                 | (725,443)                      | (22,838)               | (2,530,375)            | (100,907)                  |
| Receipts from (payments to) other funds   | 309,680                | (15,821)                  | (10,075)                       | -                      | 283,784                | -                          |
| Net cash provided by (used in) operating activities                                     | 506,175                | 297,530                   | (11,074)                       | (22,838)               | 769,793                | 173,182                    |
| <b>Cash Flows from Capital and Financing Activities</b>                                 |                        |                           |                                |                        |                        |                            |
| Purchase of capital assets  | (201,388)              | (472,671)                 | -                              | -                      | (674,059)              | (94,255)                   |
| Transfers from other funds  | -                      | -                         | -                              | 22,743                 | 22,743                 | -                          |
| Debt service and replacement charges  | -                      | -                         | 185,999                        | -                      | 185,999                | (66,995)                   |
| Principal and interest paid on capital debt   | (304,987)              | -                         | -                              | -                      | (304,987)              | (11,932)                   |
| Net cash (used in) provided by capital and financing activities                         | (506,375)              | (472,671)                 | 185,999                        | 22,743                 | (770,304)              | (173,182)                  |
| <b>Cash Flows from Investing Activities -</b>   |                        |                           |                                |                        |                        |                            |
| Interest received on investments  | 90,579                 | 59,335                    | 68,969                         | -                      | 218,883                | -                          |
| <b>Net Increase (Decrease) in Cash and Cash Equivalents</b>                             | 90,379                 | (115,806)                 | 243,894                        | (95)                   | 218,372                | -                          |
| <b>Cash and Cash Equivalents - Beginning of year</b>                                    | 2,209,716              | 1,405,291                 | 1,780,030                      | 118                    | 5,395,155              | -                          |
| <b>Cash and Cash Equivalents - End of year</b>  | <b>\$ 2,300,095</b>    | <b>\$ 1,289,485</b>       | <b>\$ 2,023,924</b>            | <b>\$ 23</b>           | <b>\$ 5,613,527</b>    | <b>\$ -</b>                |
| <b>Balance Sheet Classification of Cash and Cash Equivalents</b>                        |                        |                           |                                |                        |                        |                            |
| Cash and investments  | \$ 1,950,095           | \$ 1,289,485              | \$ 160,908                     | \$ 23                  | \$ 3,400,511           | \$ -                       |
| Restricted cash and investments (Note 3)  | 350,000                | -                         | 1,863,016                      | -                      | 2,213,016              | -                          |
| Total cash and cash equivalents   | <b>\$ 2,300,095</b>    | <b>\$ 1,289,485</b>       | <b>\$ 2,023,924</b>            | <b>\$ 23</b>           | <b>\$ 5,613,527</b>    | <b>\$ -</b>                |
| <b>Reconciliation of Operating Income (Loss) to Net Cash from Operating Activities</b>  |                        |                           |                                |                        |                        |                            |
| Operating income (loss)   | \$ (217,819)           | \$ 94,754                 | \$ (298,191)                   | \$ (22,838)            | \$ (444,094)           | \$ 220,712                 |
| Adjustments to reconcile operating income (loss) to net cash from operating activities: |                        |                           |                                |                        |                        |                            |
| Depreciation and amortization   | 302,458                | 28,981                    | 358,031                        | -                      | 689,470                | 242,026                    |
| Other receipts (payments)   | 93,058                 | (19,059)                  | (57,707)                       | -                      | 16,292                 | -                          |
| Changes in assets and liabilities:  |                        |                           |                                |                        |                        |                            |
| Receivables   | (21,183)               | 39                        | (15,334)                       | -                      | (36,478)               | -                          |
| Due from other funds  | (182,727)              | (71,479)                  | (10,357)                       | -                      | (264,563)              | (318,442)                  |
| Inventories and prepaid costs   | 35,110                 | -                         | -                              | -                      | 35,110                 | -                          |
| Accounts payable  | 74,714                 | 206,287                   | 3,596                          | -                      | 284,597                | 26,783                     |
| Accrued and other liabilities   | (69,843)               | 2,349                     | 8,606                          | -                      | (58,888)               | 2,103                      |
| Due to other funds  | 492,407                | 55,658                    | 282                            | -                      | 548,347                | -                          |
| Net cash provided by (used in) operating activities                                     | <b>\$ 506,175</b>      | <b>\$ 297,530</b>         | <b>\$ (11,074)</b>             | <b>\$ (22,838)</b>     | <b>\$ 769,793</b>      | <b>\$ 173,182</b>          |

**Noncash Investing, Capital, and Financing Activities** - There was a noncash transaction during the year ended June 30, 2008 of \$50,011 for a contribution of infrastructure work.

# City of Owosso, Michigan

## Fiduciary Funds Statement of Net Assets June 30, 2008

|  | Pension and<br>Other Employee<br>Benefit Trust<br>Fund | Agency Fund             |
|--|--|-------------------------|
|  | Employees'<br>Retirement<br>System                     | Tax Collection          |
| <b>Assets</b>  |  |                         |
| Cash and cash equivalents (Note 3)                     | \$ 180,998   | \$ 13,087               |
| Investments (Note 3):                                  |  |                         |
| Money market funds                                     | 2,905,144  | -                       |
| U.S. government securities                             | 8,741,365  | -                       |
| Stocks   | 16,729,768   | -                       |
| Bonds  | 3,930,264  | -                       |
| Receivables  | 15,277   | 5,227                   |
| Total assets   | 32,502,816   | <u><u>\$ 18,314</u></u> |
| <b>Liabilities</b>                                     |  |                         |
| Accounts payable                                       | 37,763   | \$ -                    |
| Accrued and other liabilities                          | -  | 18,314                  |
| Total liabilities                                      | 37,763   | <u><u>\$ 18,314</u></u> |
| <b>Net Assets</b> - Held in trust for pension benefits | <u><u>\$ 32,465,053</u></u>                            |                         |

# City of Owosso, Michigan

## **Fiduciary Funds Pension and Other Employee Benefit Trust Fund Statement of Changes in Net Assets Year Ended June 30, 2008**

|  | Employees'<br>Retirement<br>System |
|--|------------------------------------|
| <b>Additions</b>                                     |                                    |
| Investment income (loss):                            |                                    |
| Net decrease in fair value of investments            | \$ (1,007,165)                     |
| Interest and dividends                               | <u>994,841</u>                     |
| Total investment loss                                | (12,324)                           |
| Contributions:                                       |                                    |
| Employer   | 130,844                            |
| Employee   | <u>218,804</u>                     |
| Total contributions                                  | 349,648                            |
| Employee transfer                                    | <u>51,797</u>                      |
| Total additions                                      | 389,121                            |
| <b>Deductions</b>                                    |                                    |
| Benefit payments                                     | 1,429,327                          |
| Refunds of contributions                             | 25,499                             |
| Administrative expenses                              | <u>137,388</u>                     |
| Total deductions                                     | <u>1,592,214</u>                   |
| <b>Net Decrease</b>                                  | (1,203,093)                        |
| <b>Net Assets Held in Trust for Pension Benefits</b> |                                    |
| Beginning of year                                    | <u>33,668,146</u>                  |
| End of year  | <u><u>\$ 32,465,053</u></u>        |



# City of Owosso, Michigan

## Component Units Statement of Net Assets (Deficit) June 30, 2008

|  | Downtown<br>Development<br>Authority | Local<br>Development<br>Financing<br>Authority II | Brownfield<br>Redevelopment<br>Authority | Total               |
|--|--------------------------------------|---|--|---------------------|
| snacuuuua                                  |                                      |   |  |                     |
| <b>Assets</b>                              |                                      |   |  |                     |
| Cash and investments (Note 3)              | \$ 16,683                            | \$ -  | \$ 12,350                                | \$ 29,033           |
| Due from other governmental units          | 110,000                              | 107,191   | 32,911                                   | 250,102             |
| Land held for sale                         | -                                    | -   | 89,812                                   | 89,812              |
| Total assets                               | 126,683                              | 107,191   | 135,073                                  | 368,947             |
| <b>Liabilities</b>                         |                                      |   |  |                     |
| Accounts payable                           | 32,088                               | -   | 10,570                                   | 42,658              |
| Due to other governmental units            | 67,050                               | 90,368  | 183,548                                  | 340,966             |
| Noncurrent liabilities:                    |                                      |   |  |                     |
| Due within one year                        | 11,220                               | -   | 9,704                                    | 20,924              |
| Due in more than one year                  | 52,026                               | -   | 201,433                                  | 253,459             |
| Total liabilities                          | 162,384                              | 90,368  | 405,255                                  | 658,007             |
| <b>Net Assets (Deficit) - Unrestricted</b> | <b>\$ (35,701)</b>                   | <b>\$ 16,823</b>                                  | <b>\$ (270,182)</b>                      | <b>\$ (289,060)</b> |

# City of Owosso, Michigan

|  |                          | <u>Program<br/>Revenues</u>                       |
|--|--------------------------|---|
|  | <u>Expenses</u>          | <u>Operating<br/>Grants and<br/>Contributions</u> |
| Downtown Development Authority -<br>Community and economic development     | \$ 386,876               | \$ 6,000  |
| Local Development Financing Authority II -<br>Interest on long-term debt   | 30,180                   | -   |
| Brownfield Redevelopment Authority -<br>Community and economic development | <u>260,054</u>           | <u>12,350</u>                                     |
| Total governmental activities  | <u><b>\$ 677,110</b></u> | <u><b>\$ 18,350</b></u>                           |

## General revenues:

Property taxes

Unrestricted investment earnings

Miscellaneous

Total general revenues

## Changes in Net Assets

**Net Assets (Deficit) -**

Beginning of year

**Net Assets (Deficit) -**

End of year

**Component Units**  
**Statement of Activities**  
**Year Ended June 30, 2008**

| Net (Expense) Revenue and Changes in Net Assets |  |  |                     |
|---|--|--|---------------------|
| Local   |  |  |                     |
| Downtown<br>Development<br>Authority            | Development<br>Financing<br>Authority II | Brownfield<br>Redevelopment<br>Authority | Total               |
| \$ (380,876)                                    | \$ -                                     | \$ -                                     | \$ (380,876)        |
| -   | (30,180)                                 | -  | (30,180)            |
| -   | -  | (247,704)                                | (247,704)           |
| (380,876)                                       | (30,180)                                 | (247,704)                                | (658,760)           |
| 280,910   | 80,541                                   | 15,077                                   | 376,528             |
| 51  | -  | -  | 51                  |
| 43  | -  | -  | 43                  |
| 281,004   | 80,541                                   | 15,077                                   | 376,622             |
| (99,872)  | 50,361                                   | (232,627)                                | (282,138)           |
| 64,171  | (33,538)                                 | (37,555)                                 | (6,922)             |
| <u>\$ (35,701)</u>                              | <u>\$ 16,823</u>                         | <u>\$ (270,182)</u>                      | <u>\$ (289,060)</u> |

### **Note I - Summary of Significant Accounting Policies**

The accounting policies of the City of Owosso, Michigan (the "City") conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The following is a summary of the significant accounting policies:

#### **Reporting Entity**

The City of Owosso, Michigan is governed by an elected seven-member council. The accompanying basic financial statements present the City and its component units, entities for which the City is considered to be financially accountable. Although blended component units are legal separate entities, in substance, they are part of the City's operations. Each discretely presented component unit is reported in a separate column in the government-wide financial statements to emphasize that it is legally separate from the City (see discussion below for description).

**Blended Component Units** - The Building Authority is governed by a board appointed by the City Council. Although it is legally separate from the City, it is reported as if it were part of the primary government because its primary purpose is to finance and construct the City's public buildings.

**Discretely Presented Component Units** - The following component units are reported within the component units column in the statement of net assets. They are reported in a separate column to emphasize that they are legally separate from the City. More detailed information on each component unit is disclosed in the component units statement of net assets. Separate financial statements for the component units, other than the Downtown Development Authority, are not available.

The Downtown Development Authority was created to correct and prevent deterioration in the downtown district, encourage historical preservation, and to promote economic growth within the downtown district. The Authority's governing body, which consists of nine individuals, is selected by the City Council. In addition, the Authority's budget is subject to approval by the City Council.

Complete financial statements of the Downtown Development Authority can be obtained from its administrative offices at the following address:

Administrative Office  
Downtown Development Authority  
301 W. Main Street  
Owosso, MI 48867

### **Note I - Summary of Significant Accounting Policies (Continued)**

The Local Development Financing Authority II was created to prevent conditions of unemployment, promote economic growth, and authorize the acquisition and disposal of interests in real and personal property. The Authority's governing body consists of seven individuals, who are selected by the City Council, School Board, Regional Education School District, and County Commission.

The Brownfield Redevelopment Authority was created to facilitate the implementation of plans relating to the identification and treatment of environmentally distressed areas to promote revitalization within the Brownfield Redevelopment Zone. The Brownfield governing body, which consists of seven individuals, is selected by the City Council, and includes all members of the LDFA board. In addition, the Brownfield budget is subject to approval by the City Council.

#### **Government-wide and Fund Financial Statements**

The government-wide financial statements (i.e., the statement of net assets (deficit) and the statement of activities) report information on all of the nonfiduciary activities of the primary government and its component units. The effect of interfund activity has been removed from these statements. Governmental activities, normally supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. Likewise, the primary government is reported separately from certain legally separate component units for which the primary government is financially accountable.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenue.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual Enterprise Funds are reported as separate columns in the fund financial statements.

### **Note I - Summary of Significant Accounting Policies (Continued)**

#### **Measurement Focus, Basis of Accounting, and Financial Statement Presentation**

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund and fiduciary fund financial statements. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the City considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, expenditures relating to compensated absences, and claims and judgments are recorded only when payment is due.

Property taxes that are both measurable and available for use to finance operations are recorded as revenue when earned. Properties are assessed as of December 31 and the related property taxes become a lien on July 1 of the following year. These taxes are billed on July 1 of the following year.

Noncurrent receivables, such as special assessments, are recorded at full value, and deferred revenue is recorded for the portion not available for use to finance operations as of year end. Interest income on special assessments receivable is not accrued until its due date.

The City reports the following major governmental funds:

The General Fund is the City's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund. General Fund activities are financed by revenues from general property taxes, state-shared revenues, and other sources.

### **Note I - Summary of Significant Accounting Policies (Continued)**

The Major Streets Fund is used to account for the proceeds of revenues or financing activities earmarked for major street construction and improvements which require separate accounting because of legal or regulatory provisions.

The Subdivision Fund is used to account for the development of the subdivision.

The City reports the following major Enterprise Funds:

The Water Supply System and Sewage Disposal System Funds are used to account for the provision of water and sewer services to the residents of the City and some residents of the surrounding community. All activities necessary to provide such services are accounted for in these funds, including, but not limited to, administration, operations, maintenance, financing and related debt service, and billing and collection.

The Wastewater Treatment System Fund is used to record the transactions relative to the construction, operation, and maintenance of a wastewater treatment plant. It provides treatment facilities for Owosso and Caledonia Townships, the City of Corunna, as well as for the City itself.

Additionally, the City reports the following fund types:

The Internal Service Fund accounts for major machinery and equipment purchases and maintenance services provided to other departments of the City on a cost reimbursement basis.

Fiduciary Funds are used to account for assets held by the City in a trustee capacity or as an agent for individuals, organizations, other governments, and/or other funds. These include the Employee Retirement System and the Tax Collections Agency Fund. Agency Funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations.

The Employees' Retirement System is governed by a seven-member pension board that includes three individuals chosen by the City Council. The system is reported within the City's basic financial statements even though its resources cannot be used to fund the City's operations because of the fiduciary responsibility that the City retains relative to the operations of the retirement system.

Private sector standards of accounting issued prior to December 1, 1989 are generally followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with the standards of the Governmental Accounting Standards Board. The City has elected not to follow private sector standards issued after November 30, 1989 for its Enterprise Funds.

### **Note 1 - Summary of Significant Accounting Policies (Continued)**

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are charges between the City's water and sewer function and various other functions of the City. Eliminations of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Amounts reported as program revenue include (1) charges to customers or applicants for goods, services, or privileges provided, (2) operating grants and contributions, and (3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenue rather than as program revenue. Likewise, general revenue includes all taxes.

Proprietary funds distinguish operating revenue and expenses from nonoperating items. Operating revenue and expenses generally result from providing goods and services in connection with a proprietary fund's principal ongoing operations. The principal operating revenue of our proprietary funds relates to charges to customers for sales and services. Operating expenses for proprietary funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenue and expenses not meeting this definition are reported as nonoperating revenue and expenses. When an expense is incurred for purposes for which both restricted and unrestricted net assets are available, the City's policy is to first apply restricted resources.

#### **Assets, Liabilities, and Net Assets or Equity**

**Bank Deposits and Investments** - Cash and cash equivalents include cash on hand, demand deposits, and short-term investments with a maturity of three months or less when acquired. Investments are stated at fair value.

**Receivables and Payables** - In general, outstanding balances between funds are reported as "due to/from other funds." Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year is referred to as "advances to/from other funds." Any residual balances outstanding between the governmental activities and the business-type activities are reported in the government-wide financial statements as "internal balances."

Property taxes are levied on each July 1 on the taxable valuation of property as of the preceding December 31. Taxes are considered delinquent on September 1 of the following year, at which time penalties and interest are assessed.



### **Note I - Summary of Significant Accounting Policies (Continued)**

The City's 2007 ad valorem tax is levied and collectible on July 1, 2007 and is recognized as revenue in the year ended June 30, 2008, when the proceeds of the levy are budgeted and available for the financing of operations.

The 2007 taxable valuation of the City totaled \$277.5 million (a portion of which is abated and a portion of which is captured by the TIFA and DDA), on which ad valorem taxes levied consisted of 13.0370 mills for operating purposes, 0.3841 mills for the operations of the Holman Pool, and 0.2909 mills for debt service. This resulted in approximately \$3.6 million for operating, \$107,000 for the Holman Pool, and \$81,000 for debt service. These amounts are recognized in the respective General and Debt Service Funds financial statements as tax revenue.

All trade and property tax receivables are shown as net of allowance for uncollectible amounts.

**Inventories, Land Held for Sale, and Prepaid Items** - Inventories are valued at cost, on a first-in, first-out basis. Inventories of governmental funds are recorded as expenditures when consumed rather than when purchased. Certain payments to vendors reflect costs applicable to future fiscal years and are recorded as prepaid items in both government-wide and fund financial statements. Land held for sale includes the costs incurred by the City to develop the land for sale.

**Restricted Assets** - The revenue bonds and interlocal agreements of the Enterprise Funds require amounts to be set aside for future improvements and replacements and a bond reserve. These amounts have been classified as restricted assets.

**Capital Assets** - Capital assets, which include property, plant, equipment, and infrastructure assets (road network), are reported in the applicable governmental or business-type activities column in the government-wide financial statements. Capital assets are defined by the City as assets with an initial individual cost of more than \$5,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

### Note I - Summary of Significant Accounting Policies (Continued)

Buildings, equipment, and vehicles are depreciated using the straight-line method over the following useful lives:

|                         |                |
|-------------------------|----------------|
| Roads and sidewalks     | 50 years       |
| Land improvements       | 40 to 50 years |
| Buildings               | 40 to 50 years |
| Vehicles                | 3 to 12 years  |
| Office furnishings      | 5 to 7 years   |
| Machinery and equipment | 3 to 12 years  |

**Compensated Absences (Vacation and Sick Leave)** - It is the City's policy to permit employees to accumulate earned but unused sick and vacation pay benefits. All vacation and sick pay is accrued when incurred in the government-wide and proprietary fund financial statements. A liability for these amounts is reported in governmental funds only when they have matured or come due for payment, generally when an individual's employment has terminated as of year end.

**Long-term Obligations** - In the government-wide financial statements and the proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund-type statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt. In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts are reported as other financing uses. Issuance costs are reported as debt service expenditures.

**Fund Equity** - In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

### **Note 1 - Summary of Significant Accounting Policies (Continued)**

**Use of Estimates** - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the period. Actual results could differ from those estimates.

### **Note 2 - Stewardship, Compliance, and Accountability**

**Budgetary Information** - Annual budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America for the General Fund and all Special Revenue Funds, except that transfers in and out are budgeted as revenue and expenditures. All annual appropriations lapse at fiscal year end. Charter provisions require department head submissions by the first Monday in February, submission of the budget to the City Council by the first meeting in April, and adoption of the budget by the fourth Monday in May.

The budget document presents information by fund, activity, department, and line items. The legal level of budgetary control adopted by the governing body is the activity level. Amounts encumbered for purchase orders, contracts, etc. are not tracked during the year. Budget appropriations are considered to be spent once the goods are delivered or the services rendered.

**Excess of Expenditures Over Appropriations in Budgeted Funds** - The City had no significant expenditures over the appropriated budget amount.

**Fund Deficits** - The Subdivision Fund had a net deficit at the fund basis at year end of \$320,050. The Subdivision Fund will collect the proceeds on the sale of land to eliminate this deficit.

The Brownfield Redevelopment Authority had a net deficit at the government-wide basis at year end of \$270,182; on the modified accrual basis of accounting, there was a fund deficit of \$16,727. The Brownfield Redevelopment Authority will capture property taxes in the future to eliminate these deficits.

The Downtown Development Authority had a net deficit at the government-wide basis at year end of \$35,701; on the modified accrual basis of accounting, there was a fund balance of \$27,545. The Downtown Development Authority will capture property taxes in the future to eliminate these deficits.

### **Note 3 - Deposits and Investments**

Michigan Compiled Laws Section 129.91 (Public Act 20 of 1943, as amended) authorizes local governmental units to make deposits and invest in the accounts of federally insured banks, credit unions, and savings and loan associations that have offices in Michigan. The City is allowed to invest in bonds, securities, and other direct obligations of the United States or any agency or instrumentality of the United States; repurchase agreements; bankers' acceptances of United States banks; commercial paper rated within the two highest classifications, which matures not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions, which are rated as investment grade; and mutual funds composed of investment vehicles that are legal for direct investment by local units of government in Michigan.

The Pension Trust Fund is authorized by Michigan Public Act 314 of 1965, as amended, to invest in certain reverse repurchase agreements, stocks, diversified investment companies, annuity investment contracts, real estate leased to public entities, mortgages, debt or equity of certain small businesses, certain state and local government obligations, and certain other specified investment vehicles.

The City has designated five banks for the deposit of its funds. The investment policy adopted by the City Council in accordance with Public Act 196 of 1997 has authorized investments as allowed under state statutory authority as listed above.

The City's cash and investments are subject to several types of risk, which are examined in more detail below:

#### **Custodial Credit Risk of Bank Deposits**

Custodial credit risk is the risk that in the event of a bank failure, the City's deposits may not be returned to it. The City has a deposit policy for custodial credit risk. At year end, the City had bank deposits (certificates of deposit, checking, and savings accounts) of \$4,854,720, of which \$378,087 was covered by federal depository insurance and \$4,476,633 was uninsured and uncollateralized. The component units' deposits had a bank balance of \$16,683, all of which was covered by federal depository insurance. The City believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all deposits. As a result, the City evaluates each financial institution with which it deposits funds and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

### Note 3 - Deposits and Investments (Continued)

#### Custodial Credit Risk of Investments

Custodial credit risk is the risk that, in the event of the failure of the counterparty, the City will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The City does have a policy for custodial credit risk. At year end, the following investment securities were uninsured and unregistered, with securities held by the counterparty or by its trust department or agent but not in the City's name:

| Investment Type                                  | Carrying Value | How Held                   |
|--|----------------|----------------------------|
| U.S. government or agency bond or note (pension) | \$ 8,741,365   | Counterparty               |
| Corporate bonds (pension)                        | 3,930,264      | Counterparty's trust dept. |
| Corporate stocks (pension)                       | 16,729,768     | Counterparty's trust dept. |

#### Interest Rate Risk

Interest rate risk is the risk that the value of investments will decrease as a result of a rise in interest rates. The City's investment policy restricts maturities greater than three years to sinking fund-type reserves. The pension trust fund does not restrict investment maturities other than commercial paper, which can only be purchased with a 270-day maturity for nonpension funds. At year end, the average maturities of investments are as follows:

| Type of Investment                               | Fair Value   | Less than One |              |              | More than 10<br>Years |
|--|--------------|---------------|--------------|--------------|-----------------------|
|  |              | Year          | 1-5 Years    | 6-10 Years   |                       |
| U.S. government or agency bond or note (pension) | \$ 8,741,365 | \$ 1,118,698  | \$ 1,748,771 | \$ 1,654,584 | \$ 4,219,312          |
| Corporate bonds (pension)                        | 3,930,264    | 26,654        | 65,795       | 1,596,594    | 2,241,221             |
| Money market funds (pension)                     | 2,905,144    | 2,905,144     | -            | -            | -                     |
| Money market funds                               | 4,065,019    | 4,065,019     | -            | -            | -                     |

### Note 3 - Deposits and Investments (Continued)

#### Credit Risk

The City's investment policy limits its investment choices to those specified by state statute. As of year end, the credit quality ratings of debt securities (other than the U.S. government) are as follows:

| Investment                                      | Fair Value   | Rating    | Rating<br>Organization |
|---|--------------|-----------|------------------------|
| Corporate bonds (pension)                       | \$ 2,138,385 | AAA       | S&P                    |
| Corporate bonds (pension)                       | 262,488      | AAA       | Moody's                |
| Corporate bonds (pension)                       | 35,616       | AA+       | S&P                    |
| Corporate bonds (pension)                       | 154,020      | AA        | S&P                    |
| Corporate bonds (pension)                       | 34,234       | AA2       | Moody's                |
| Corporate bonds (pension)                       | 118,984      | A+        | S&P                    |
| Corporate bonds (pension)                       | 671,788      | A         | S&P                    |
| Corporate bonds (pension)                       | 143,201      | A-        | S&P                    |
| Corporate bonds (pension)                       | 130,720      | BBB+      | S&P                    |
| Corporate bonds (pension)                       | 96,243       | BBB       | S&P                    |
| Corporate bonds (pension)                       | 49,248       | BBB-      | S&P                    |
| Corporate bonds (pension)                       | 95,339       | Not Rated | -                      |
| U.S. government agency bonds or notes (pension) | 8,720,687    | AAA       | S&P                    |
| U.S. government agency bonds or notes (pension) | 20,678       | AA+       | S&P                    |
| Money market funds                              | 4,065,019    | Not Rated | -                      |
| Money market funds (pension)                    | 2,905,144    | Not Rated | -                      |

# City of Owosso, Michigan

## Notes to Financial Statements June 30, 2008

### Note 4 - Receivables

Receivables as of year end for the City's individual major funds and the nonmajor and Internal Service Funds in the aggregate, including the applicable allowances for uncollectible accounts, are as follows:

|                     | Governmental Activities |                   |                   | Business-type Activities |               |                  |                     |
|---------------------|-------------------------|-------------------|-------------------|--------------------------|---------------|------------------|---------------------|
|                     | General                 | Major             | Nonmajor          | Water Supply             | Sewage        | Nonmajor         |                     |
|                     | Fund                    | Streets Fund      | and Other         | System                   | Disposal      | Funds            | Total               |
|                     |                         |                   | Funds             |                          | System        |                  |                     |
| Receivables:        |                         |                   |                   |                          |               |                  |                     |
| Taxes               | \$ 7,936                | \$ -              | \$ -              | \$ -                     | \$ -          | \$ -             | \$ 7,936            |
| Intergovernmental   | 682,112                 | 116,538           | 64,090            | 73,246                   | -             | -                | 935,986             |
| Special assessments | -                       | 176,442           | 203,725           | -                        | -             | -                | 380,167             |
| Customers           | -                       | -                 | -                 | 335,266                  | -             | -                | 335,266             |
| Interest and other  | 118,679                 | -                 | 66,883            | 20,422                   | 105           | 15,334           | 221,423             |
| Loans               | -                       | -                 | 616,506           | -                        | -             | -                | 616,506             |
| Total receivables   | <u>\$ 808,727</u>       | <u>\$ 292,980</u> | <u>\$ 951,204</u> | <u>\$ 428,934</u>        | <u>\$ 105</u> | <u>\$ 15,334</u> | <u>\$ 2,497,284</u> |

Governmental funds report deferred revenue in connection with receivables for revenue that is not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received but not yet earned. At the end of the current fiscal year, the various components of deferred revenue are as follows:

|                       | Unavailable       | Unearned         | Total             |
|-----------------------|-------------------|------------------|-------------------|
| Special assessments   | \$ 353,162        | \$ 90,251        | \$ 443,413        |
| State-shared revenues | 345,685           | -                | 345,685           |
| Total                 | <u>\$ 698,847</u> | <u>\$ 90,251</u> | <u>\$ 789,098</u> |

# City of Owosso, Michigan

## Notes to Financial Statements June 30, 2008

### Note 5 - Capital Assets

Capital asset activity of the City's governmental and business-type activities was as follows:

| <b>Governmental Activities</b>        | Balance<br>July 1, 2007 | Additions    | Disposals and<br>Adjustments | Balance<br>June 30, 2008 |
|---------------------------------------|-------------------------|--------------|------------------------------|--------------------------|
| Capital assets not being depreciated: |                         |              |                              |                          |
| Land                                  | \$ 4,483,838            | \$ -         | \$ 939                       | \$ 4,482,899             |
| Construction in progress              | 283,050                 | -            | 283,050                      | -                        |
| Subtotal                              | 4,766,888               | -            | 283,989                      | 4,482,899                |
| Capital assets being depreciated:     |                         |              |                              |                          |
| Roads and sidewalks                   | 41,711,992              | 2,391,534    | 375,966                      | 43,727,560               |
| Land improvements                     | 1,379,711               | 442,492      | -                            | 1,822,203                |
| Buildings                             | 2,790,192               | -            | 37,875                       | 2,752,317                |
| Vehicles                              | 3,267,544               | 782,489      | 112,338                      | 3,937,695                |
| Office furnishings                    | 1,404,129               | -            | -                            | 1,404,129                |
| Machinery and equipment               | 2,070,503               | 26,265       | -                            | 2,096,768                |
| Subtotal                              | 52,624,071              | 3,642,780    | 526,179                      | 55,740,672               |
| Accumulated depreciation:             |                         |              |                              |                          |
| Roads and sidewalks                   | 14,174,260              | 834,240      | -                            | 15,008,500               |
| Land improvements                     | 1,200,082               | 35,810       | -                            | 1,235,892                |
| Buildings                             | 1,773,263               | 73,583       | 33,628                       | 1,813,218                |
| Vehicles                              | 1,916,421               | 233,680      | 112,338                      | 2,037,763                |
| Office furnishings                    | 1,170,051               | 61,501       | -                            | 1,231,552                |
| Machinery and equipment               | 1,400,881               | 164,666      | -                            | 1,565,547                |
| Subtotal                              | 21,634,958              | 1,403,480    | 145,966                      | 22,892,472               |
| Net capital assets being depreciated  | 30,989,113              | 2,239,300    | 380,213                      | 32,848,200               |
| Net capital assets                    | \$ 35,756,001           | \$ 2,239,300 | \$ 664,202                   | \$ 37,331,099            |



# City of Owosso, Michigan

## Notes to Financial Statements June 30, 2008

### Note 5 - Capital Assets (Continued)

| Business-type Activities              | Balance<br>July 1, 2007 | Additions    | Adjustments and<br>Disposals | Balance<br>June 30, 2008 |
|---------------------------------------|-------------------------|--------------|------------------------------|--------------------------|
| Capital assets not being depreciated: |                         |              |                              |                          |
| Land                                  | \$ 451,314              | \$ -         | \$ -                         | \$ 451,314               |
| Construction in progress              | -                       | 490,886      | -                            | 490,886                  |
| Subtotal                              | 451,314                 | 490,886      | -                            | 942,200                  |
| Capital assets being depreciated:     |                         |              |                              |                          |
| Buildings                             | 13,239,935              | -            | -                            | 13,239,935               |
| Improvements other than buildings     | 8,325,665               | 183,173      | -                            | 8,508,838                |
| Vehicles                              | 63,657                  | -            | -                            | 63,657                   |
| Machinery and equipment               | 10,342,793              | -            | -                            | 10,342,793               |
| Subtotal                              | 31,972,050              | 183,173      | -                            | 32,155,223               |
| Accumulated depreciation:             |                         |              |                              |                          |
| Buildings                             | 5,094,634               | 277,814      | -                            | 5,372,448                |
| Improvements other than buildings     | 3,723,009               | 173,988      | -                            | 3,896,997                |
| Vehicles                              | 61,282                  | 778          | -                            | 62,060                   |
| Machinery and equipment               | 8,951,415               | 236,891      | -                            | 9,188,306                |
| Subtotal                              | 17,830,340              | 689,471      | -                            | 18,519,811               |
| Net capital assets being depreciated  | 14,141,710              | (506,298)    | -                            | 13,635,412               |
| Net capital assets                    | \$ 14,593,024           | \$ (506,298) | \$ -                         | \$ 14,577,612            |

Depreciation expense was charged to programs of the primary government as follows:

#### Governmental activities:

|                        |           |
|------------------------|-----------|
| General government     | \$ 97,627 |
| Public safety          | 185,725   |
| Public works           | 1,085,681 |
| Economic development   | 1,086     |
| Recreation and culture | 33,361    |

Total governmental activities \$ 1,403,480

#### Business-type activities:

|            |            |
|------------|------------|
| Water      | \$ 302,458 |
| Sewer      | 28,981     |
| Wastewater | 358,032    |

Total business-type activities \$ 689,471

# City of Owosso, Michigan

## Notes to Financial Statements June 30, 2008

### Note 6 - Interfund Receivables, Payables, and Transfers

The composition of interfund balances is as follows:

| Receivable Fund                | Payable Fund              | Amount                     |
|--------------------------------|---------------------------|----------------------------|
| <b>Due To/From Other Funds</b> |                           |                            |
| General Fund                   | Water Fund                | \$ 463,133                 |
|                                | Subdivision Fund          | 564,050                    |
|                                | Other governmental funds  | <u>64,265</u>              |
|                                | Total General Fund        | 1,091,448                  |
| Major Streets Fund             | General Fund              | 42,134                     |
| Other governmental funds       | General Fund              | 1,063,208                  |
|                                | Major Streets Fund        | <u>56,515</u>              |
| Total other governmental funds |                           | 1,119,723                  |
| Water Fund                     | Major Streets Fund        | 25,269                     |
|                                | Other governmental funds  | 19,736                     |
|                                | Sewer Fund                | 22,299                     |
|                                | Wastewater Treatment Fund | <u>1,896</u>               |
| Total Water Fund               |                           | 69,200                     |
| Sewer Fund                     | General Fund              | 248,717                    |
|                                | Major Streets Fund        | 9,797                      |
|                                | Other governmental funds  | <u>21,014</u>              |
| Total Sewer Fund               |                           | 279,528                    |
| Wastewater Fund                | General Fund              | 74,554                     |
|                                | Sewer Fund                | <u>24,693</u>              |
| Total Wastewater Fund          |                           | <u>99,247</u>              |
| Total due to/from other funds  |                           | <u><u>\$ 2,701,280</u></u> |

These balances resulted from the time lag between the dates that (1) interfund goods and services are provided or reimbursable expenditures occur and (2) payments between funds are made.

# City of Owosso, Michigan

## Notes to Financial Statements June 30, 2008

### Note 6 - Interfund Receivables, Payables, and Transfers (Continued)

#### Interfund Transfers

|                          | Transfers Out     |                       |                                | Total             |
|--------------------------|-------------------|-----------------------|--------------------------------|-------------------|
|                          | General<br>Fund   | Major Streets<br>Fund | Other<br>Governmental<br>Funds |                   |
| Transfers in:            |                   |                       |                                |                   |
| Major Streets Fund       | \$ 355,437        | \$ -                  | \$ -                           | \$ 355,437        |
| Other governmental funds | 216,420           | 177,893               | 2,045                          | 396,358           |
| Transportation Fund      | 22,743            | -                     | -                              | 22,743            |
| Total transfers by fund  | <u>\$ 594,600</u> | <u>\$ 177,893</u>     | <u>\$ 2,045</u>                | <u>\$ 774,538</u> |

Transfers are used to (1) move revenues from the fund that statute requires to collect them to the fund that the budget requires to expend them and (2) use unrestricted revenues collected in the General Fund to finance various programs accounted for in others in accordance with budgetary authorizations.

### Note 7 - Long-term Debt

The City issues bonds to provide for the acquisition and construction of major capital facilities. General obligation bonds are direct obligations and pledge the full faith and credit of the City. Installment purchase agreements are also general obligations of the government. Special assessment bonds provide for capital improvements that benefit specific properties, and will be repaid from amounts levied against those properties benefited from the construction. In the event that a deficiency exists because of unpaid or delinquent special assessments at the time a debt service payment is due, the City is obligated to provide resources to cover the deficiency until other resources (such as tax sale proceeds or a re-assessment of the district) are received. Revenue bonds involve a pledge of specific income derived from the acquired or constructed assets to pay debt service.

# City of Owosso, Michigan

## Notes to Financial Statements June 30, 2008

### Note 7 - Long-term Debt (Continued)

Long-term obligation activity can be summarized as follows:

|   | Beginning<br>Balance | Additions           | Reductions        | Ending Balance      | Due Within<br>One Year |
|---|----------------------|---------------------|-------------------|---------------------|------------------------|
| <b>Governmental Activities</b>                        |                      |                     |                   |                     |                        |
| General obligation bonds:                             |                      |                     |                   |                     |                        |
| 1994 Unlimited Tax General<br>Obligation Bonds        | \$ 225,000           | \$ -                | \$ 70,000         | \$ 155,000          | \$ 75,000              |
| 2001 General Obligation<br>Limited Tax Bonds          | 460,000              | -                   | 110,000           | 350,000             | 115,000                |
| Installment purchase agreements:                      |                      |                     |                   |                     |                        |
| HVAC  | 425,000              | -                   | 35,000            | 390,000             | 40,000                 |
| Vactor equipment                                      | 152,709              | -                   | 48,464            | 104,245             | 50,863                 |
| Elgin sweeper   | 80,395               | -                   | 18,531            | 61,864              | 19,539                 |
| HME fire truck  | -                    | 661,498             | 113,955           | 547,543             | 101,842                |
| Special assessment bonds:                             |                      |                     |                   |                     |                        |
| 1998 Special Assessment<br>Limited Tax Bonds          | 30,000               | -                   | 30,000            | -                   | -                      |
| 1999 Special Assessment<br>Limited Tax Bonds          | 45,000               | -                   | 25,000            | 20,000              | 20,000                 |
| 2001 Special Assessment<br>Limited Tax Bonds          | 95,000               | -                   | 30,000            | 65,000              | 30,000                 |
| Other long-term obligations:                          |                      |                     |                   |                     |                        |
| Self-insurance liabilities (Note 9)                   | 119,637              | 81,262              | 97,577            | 103,322             | 75,000                 |
| Compensated absences                                  | 590,558              | 285,994             | 276,572           | 599,980             | 154,444                |
| Total governmental activities                         | <u>\$ 2,223,299</u>  | <u>\$ 1,028,754</u> | <u>\$ 855,099</u> | <u>\$ 2,396,954</u> | <u>\$ 681,688</u>      |
| <b>Business-type Activities</b>                       |                      |                     |                   |                     |                        |
| Revenue bond - 2002 Water Supply<br>System            | \$ 4,600,000         | \$ -                | \$ 95,000         | \$ 4,505,000        | \$ 115,000             |
| Other long-term obligations -<br>Compensated absences | 188,870              | 143,012             | 152,087           | 179,795             | 39,640                 |
| Total business-type activities                        | <u>\$ 4,788,870</u>  | <u>\$ 143,012</u>   | <u>\$ 247,087</u> | <u>\$ 4,684,795</u> | <u>\$ 154,640</u>      |
| <b>Component Units - Loan</b>                         | <u>\$ -</u>          | <u>\$ 274,383</u>   | <u>\$ -</u>       | <u>\$ 274,383</u>   | <u>\$ 20,924</u>       |

# City of Owosso, Michigan

## Notes to Financial Statements June 30, 2008

### Note 7 - Long-term Debt (Continued)

Annual debt service requirements to maturity for the above bond and note obligations are as follows:

|           | Governmental Activities |                   |                     | Business-type Activities |                     |                     | Component Units   |                   |                   |
|-----------|-------------------------|-------------------|---------------------|--------------------------|---------------------|---------------------|-------------------|-------------------|-------------------|
|           | Principal               | Interest          | Total               | Principal                | Interest            | Total               | Principal         | Interest          | Total             |
| 2009      | \$ 452,244              | \$ 74,653         | \$ 526,897          | \$ 115,000               | \$ 205,059          | \$ 320,059          | \$ 20,924         | \$ 16,498         | \$ 37,422         |
| 2010      | 439,521                 | 52,546            | 492,067             | 135,000                  | 200,689             | 335,689             | 22,214            | 15,208            | 37,422            |
| 2011      | 306,093                 | 33,330            | 339,423             | 160,000                  | 195,059             | 355,059             | 23,546            | 13,875            | 37,421            |
| 2012      | 158,340                 | 22,244            | 180,584             | 180,000                  | 188,259             | 368,259             | 24,960            | 12,462            | 37,422            |
| 2013      | 167,454                 | 15,287            | 182,741             | 205,000                  | 180,559             | 385,559             | 26,429            | 10,992            | 37,421            |
| 2014-2018 | 170,000                 | 11,373            | 181,373             | 1,430,000                | 739,919             | 2,169,919           | 73,422            | 38,613            | 112,035           |
| 2019-2023 | -                       | -                 | -                   | 2,280,000                | 304,025             | 2,584,025           | 82,888            | 13,768            | 96,656            |
| Total     | <u>\$ 1,693,652</u>     | <u>\$ 209,433</u> | <u>\$ 1,903,085</u> | <u>\$ 4,505,000</u>      | <u>\$ 2,013,569</u> | <u>\$ 6,518,569</u> | <u>\$ 274,383</u> | <u>\$ 121,416</u> | <u>\$ 395,799</u> |

**Future Revenues Pledged for Debt Payment** - The City has pledged substantially all revenue of the water supply system fund, net of operating expenses, to repay the above water supply system revenue bonds. Proceeds from the bonds provided financing for the construction of the water supply system. The bonds are payable solely from the net revenues of the water supply system fund. The remaining principal and interest to be paid on the bonds total \$6,518,568. During the current year, net revenues of the system were \$1,705,887 compared to the annual debt requirements of \$303,484.

### Note 8 - Restricted Assets

The balances of the restricted asset accounts are as follows:

|                                  | Business-type<br>Activities |
|----------------------------------|-----------------------------|
| Revenue bond restrictions:       |                             |
| Revenue bond reserve             | \$ 350,000                  |
| Improvement and replacement fund | <u>1,863,016</u>            |
| Total restricted assets          | <u>\$ 2,213,016</u>         |

### Note 9 - Risk Management

The City is exposed to various risks of loss related to property loss, torts, errors and omissions, and employee injuries (workers' compensation), as well as medical benefits provided to employees. The City has purchased commercial insurance for employee medical benefits and participates in the Michigan Municipal Risk Management Authority (risk pool) for claims relating to general and auto liability, auto physical damage and property loss claims, and the Michigan Municipal League for Workers' Compensation. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years.

The Michigan Municipal League risk pool program operates as a common risk-sharing management program for local units of government in Michigan; member premiums are used to purchase commercial excess insurance coverage and to pay member claims in excess of deductible amounts.

The Michigan Municipal Risk Management Authority (the "Authority") risk pool program operates as a claims servicing pool for amounts up to member retention limits, and operates as a common risk-sharing management program for losses in excess of member retention amounts. Although premiums are paid annually to the Authority that the Authority uses to pay claims up to the retention limits, the ultimate liability for those claims remains with the City.

At June 30, 2008, the City has \$182,613 on deposit with the Authority to pay claims. Upon termination of the program, any amounts remaining on deposit after the Authority has settled all claims incurred prior to termination will be returned to the City. The City estimates the liability for claims that have been incurred through the end of the fiscal year, including claims that have been reported as well as those that have not yet been reported. Changes in the estimated liability for the past two fiscal years were as follows:

|  | 2008              | 2007              |
|--|-------------------|-------------------|
| <b>Unpaid Claims - Beginning of year</b>                     | \$ 119,637        | \$ 119,644        |
| Incurred claims (including claims incurred but not reported) | 81,262            | 34,252            |
| Claim payments   | (97,577)          | (34,259)          |
| <b>Unpaid Claims - End of year</b>                           | <u>\$ 103,322</u> | <u>\$ 119,637</u> |

### **Note 10 - Defined Benefit Pension Plans**

#### **City of Owosso Employees' Retirement System**

**Plan Description** - The City of Owosso Employees' Retirement System is a single-employer defined benefit pension plan that is administered by the City of Owosso, Michigan; this plan covers substantially all the employees of the City, except for certain retired union employees of the American Federation of State, County, and Municipal Employees and the Police Command Bargaining Unit, both of which participate in the Michigan Municipal Employees' Retirement System. During the prior year, the plan was closed to all new employees under the AFSCME and general union agreements. The employees under the AFSCME and general union agreements participate in a defined contribution plan administered under ICMA for which the City matches employee contributions up to 4.0 percent. The system provides retirement, disability, and death benefits to plan members and their beneficiaries. At December 31, 2007, the date of the most recent actuarial valuation, membership consisted of 77 retirees and beneficiaries currently receiving benefits and terminated employees entitled to benefits but not yet receiving them, and 90 current active employees. The plan does not issue a separate financial statement.

**Funding Policy** - Plan member contributions are recognized in the period in which the contributions are due. Employer contributions to the plan are recognized when due and the employer has made a formal commitment to provide the contributions. Benefits and refunds are recognized when due and payable in accordance with the terms of the plan. Please refer to Note 1 for further significant accounting policies.

**Contributions** - The obligation to contribute to and maintain the system for these employees was established by negotiation with the City's competitive bargaining units and requires a contribution from the employees of 6.0 percent, excluding the police union, to which the City contributes up to 4.0 percent with the members being responsible for any additional contribution requirements. The funding policy provides for periodic employer contributions at actuarially determined rates. Administrative costs of the plan are financed through investment earnings and contributions from the City.

**Annual Pension Costs** - For the year ended June 30, 2008, the City made contributions of \$130,844, in accordance with actuarial requirements.

### Note 10 - Defined Benefit Pension Plans (Continued)

**Actuarial Methods and Assumptions** - The annual required contribution was determined as part of an actuarial valuation at December 31, 2006, using the entry actual age cost method, except the general union which uses the aggregate cost method. Significant actuarial assumptions used include (i) a 7.5 percent investment rate of return, (ii) projected salary increases of 4.5 percent to 12.8 percent per year depending on age, attributable to seniority/merit, and (iii) 1.4 percent per year cost of living adjustments for the first 10 years of retirement. Both (i) and (ii) include an inflation component of 4.5 percent. The actuarial value of assets was determined using techniques that smooth the effects of short-term volatility over a four-year period. The unfunded actuarial liability is being amortized as a level percent of payroll on a closed basis. The remaining amortization period is 10 years.

**Reserves** - As of June 30, 2008, the plan's legally required reserves have been fully funded as follows:

|                                      |              |
|--------------------------------------|--------------|
| Reserve for employees' contributions | \$ 3,839,022 |
| Reserve for retired benefit payments | 15,228,634   |

Three-year trend information as of June 30 follows:

|                               | Fiscal Year Ended June 30 |           |            |
|-------------------------------|---------------------------|-----------|------------|
|                               | 2006                      | 2007      | 2008       |
| Employees' Retirement System: |                           |           |            |
| Annual pension costs (APC)    | \$ -                      | \$ 95,731 | \$ 130,844 |
| Percentage of APC contributed | N/A                       | 100%      | 100%       |
| Net pension obligation        | -                         | -         | -          |

Funded status and funding progress:

|   | Actuarial Valuation as of June 30 |               |               |
|---|-----------------------------------|---------------|---------------|
|   | 2005                              | 2006          | 2007          |
| Actuarial value of assets                     | \$ 32,277,585                     | \$ 32,505,226 | \$ 33,894,127 |
| Actuarial Accrued Liability (entry age) (AAL) | 27,939,504                        | 28,673,197    | 28,860,834 *  |
| Unfunded AAL (UAAL)                           | (4,338,081)                       | (3,832,029)   | (5,033,293)   |
| Funded ratio                                  | 115.5                             | 113.4         | 117.4         |
| Covered payroll                               | 4,162,066                         | 3,933,310     | 4,052,300     |
| UAAL as a percentage of covered payroll       | 104.2                             | 97.4          | 124.2         |

\* The actuarial accrued liability (AAL) was calculated using the entry age method, pursuant to GASB 50.



### **Note 10 - Defined Benefit Pension Plans (Continued)**

The schedule of funding progress, presented as required supplemental information following the notes to the financial statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

#### **Michigan Municipal Employees' Retirement System**

**Plan Description** - The City participates in the Michigan Municipal Employees' Retirement System, an agent multiple-employer defined benefit pension plan that covers certain retired union members of the American Federation of State, County, and Municipal Employees (AFSCME) and certain union members of the Police Command Bargaining Unit employees of the City. The system provides retirement, disability, and death benefits to plan members and their beneficiaries. The Michigan Municipal Employees' Retirement System issues a publicly available financial report that includes financial statements and required supplemental information for the system. That financial report may be obtained by writing to the system at 1134 Municipal Way, Lansing, MI 48917.

**Funding Policy** - The obligation to contribute to and maintain the system for these employees was established by negotiations with the City's competitive bargaining units and requires 6.40 percent and 10.15 percent contributions from the employees of AFSCME and Police Command Bargaining Unit employees, respectively.

**Annual Pension Costs** - For the year ended June 30, 2008, the City was not required to make an annual contribution to the plan.

**Actuarial Methods and Assumptions** - The annual required contribution was determined as part of an actuarial valuation at December 31, 2004, using the entry actual age cost method. Significant actuarial assumptions used include (i) an 8.0 percent investment rate of return and (ii) projected salary increases of 4.5 percent to 12.9 percent per year depending on age, attributable to seniority/merit. Both (i) and (ii) include an inflation component of 4.5 percent. The actuarial value of assets was determined using techniques that smooth the effects of short-term volatility over a four-year period. The unfunded actuarial liability is being amortized as a level percent of payroll. The remaining amortization period is 28 years.

# City of Owosso, Michigan

## Notes to Financial Statements June 30, 2008

### Note 10 - Defined Benefit Pension Plans (Continued)

Three-year trend information as of June 30 follows:

|                               | Fiscal Year Ended June 30 |      |      |
|-------------------------------|---------------------------|------|------|
|                               | 2006                      | 2007 | 2008 |
| Annual pension costs (APC)    | \$ -                      | \$ - | \$ - |
| Percentage of APC contributed | N/A                       | N/A  | N/A  |
| Net pension obligation        | -                         | -    | -    |

Funded status and funding progress:

|   | Actuarial Valuation as of December 31 |              |              |
|---|---------------------------------------|--------------|--------------|
|   | 2005                                  | 2006         | 2007         |
| Actuarial value of assets               | \$ 3,457,494                          | \$ 3,662,770 | \$ 3,707,096 |
| Actuarial accrued liability (AAL)       |                                       |              |              |
| (entry age)                             | \$ 3,435,995                          | \$ 3,625,641 | \$ 3,616,007 |
| Unfunded AAL (UAAL)                     | \$ (21,499)                           | \$ (37,129)  | \$ (91,089)  |
| Funded ratio                            | 101%                                  | 101%         | 103%         |
| Covered payroll                         | \$ 347,795                            | \$ 357,822   | \$ 328,273   |
| UAAL as a percentage of covered payroll | 0%                                    | 0%           | 0%           |

### Defined Contribution Pension Plan

The City provides pension benefits to the city manager position along with new employees under the AFSCME and general union agreements with a defined contribution plan administered under ICMA for which the City provides employer contributions. In accordance with these requirements, the City contributed \$7,919 during the current year and employees contributed \$6,486 during the year.

# City of Owosso, Michigan

## Notes to Financial Statements June 30, 2008

### Note 11 - Construction Code Fees

The City oversees building construction, in accordance with the State's Construction Code Act, including inspection of building construction and renovation to ensure compliance with the building codes. The City charges fees for these services. Beginning January 1, 2000, the law requires that collection of these fees be used only for construction code costs, including an allocation of estimated overhead costs. A summary of the activity since January 1, 2000 is as follows:

|                                       |                     |
|---------------------------------------|---------------------|
| Shortfall at July 1, 2007             | \$ (292,215)        |
| Current year building permit revenue  | 109,652             |
| Related expenses - Direct costs       | <u>122,800</u>      |
| Cumulative shortfall at June 30, 2008 | <u>\$ (305,363)</u> |

### Note 12 - Contingent Liabilities

The City has been served in civil and administrative actions brought against it seeking damages from matters within the geographical limits of and/or activities of the City of Owosso, Michigan. In the opinion of the administration and its legal counsel, the settlement of these actions should have no material effect upon the financial position of the City.

### Note 13 - Subsequent Events

**Declines in Investment Values** - Subsequent to year end, the City's Pension and Other Employee Benefit Trust Fund investment portfolio has incurred a significant decline in fair value, consistent with the general decline in financial markets. However, because the values of individual investments fluctuate with market conditions, the amount of losses that will be recognized in subsequent periods, if any, cannot be determined.

## **Required Supplemental Information**

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# City of Owosso, Michigan

## Required Supplemental Information Budgetary Comparison Schedule - General Fund Year Ended June 30, 2008

|   | Original<br>Budget  | Amended<br>Budget   | Actual              | Variance with<br>Amended<br>Budget |
|---|---------------------|---------------------|---------------------|------------------------------------|
| <b>Fund Balance - Beginning of year</b>     | \$ 3,519,485        | \$ 3,519,485        | \$ 3,519,485        | \$ -                               |
| <b>Resources (Inflows)</b>                  |                     |                     |                     |                                    |
| Property taxes                              | 3,670,725           | 3,654,525           | 3,680,631           | 26,106                             |
| Local sources                               | 679,900             | 1,172,325           | 1,162,132           | (10,193)                           |
| State and federal sources                   | 2,393,900           | 1,779,900           | 1,778,124           | (1,776)                            |
| Other financing sources                     | -                   | 661,500             | 661,498             | (2)                                |
| Amounts available for appropriation         | 10,264,010          | 10,787,735          | 10,801,870          | 14,135                             |
| <b>Charges to Appropriations (Outflows)</b> |                     |                     |                     |                                    |
| General government                          | 1,063,475           | 1,325,275           | 1,289,694           | 35,581                             |
| Public safety                               | 3,842,600           | 3,987,150           | 3,953,201           | 33,949                             |
| Community and economic development          | 262,650             | 260,925             | 248,808             | 12,117                             |
| Public works                                | 1,169,225           | 982,525             | 881,211             | 101,314                            |
| Recreation and culture                      | 1,169,200           | 240,450             | 237,222             | 3,228                              |
| Transfers                                   | 582,450             | 723,975             | 594,600             | 129,375                            |
| Total charges to appropriations (outflows)  | 8,089,600           | 7,520,300           | 7,204,736           | 315,564                            |
| Net change in fund balance                  | (1,345,075)         | (252,050)           | 77,649              | 329,699                            |
| <b>Fund Balance - End of year</b>           | <b>\$ 2,174,410</b> | <b>\$ 3,267,435</b> | <b>\$ 3,597,134</b> | <b>\$ 329,699</b>                  |

# City of Owosso, Michigan

## Required Supplemental Information Budgetary Comparison Schedule Major Special Revenue Fund Major Streets Fund Year Ended June 30, 2008

|   | Original<br>Budget     | Amended<br>Budget      | Actual                 | Variance<br>with<br>Amended<br>Budget |
|---|------------------------|------------------------|------------------------|---------------------------------------|
| <b>Fund Balance</b> - Beginning of year                 | \$ 1,503               | \$ 1,503               | \$ 1,503               | \$ -                                  |
| <b>Resources (Inflows)</b> - Major                      | <u>3,391,150</u>       | <u>3,427,850</u>       | <u>3,163,602</u>       | <u>(264,248)</u>                      |
| Amounts available for<br>appropriation                  | 3,392,653              | 3,429,353              | 3,165,105              | (264,248)                             |
| <b>Charges to Appropriations<br/>(Outflows)</b> - Major | <u>3,391,150</u>       | <u>3,427,850</u>       | <u>3,161,575</u>       | <u>266,275</u>                        |
| <b>Fund Balance</b> - End of year                       | <u><u>\$ 1,503</u></u> | <u><u>\$ 1,503</u></u> | <u><u>\$ 3,530</u></u> | <u><u>\$ 2,027</u></u>                |

# City of Owosso, Michigan

## Required Supplemental Information Pension System Schedules of Funding Progress and Employer Contributions June 30, 2008

The schedule of funding progress is as follows:

### Employees' Retirement System

| Actuarial<br>Valuation<br>Date | Actuarial<br>Value of<br>Assets<br>(a) | Actuarial<br>Accrued<br>Liability<br>(AAL)<br>(b) | Unfunded<br>AAL (UAAL)<br>(b-a) | Funded Ratio<br>(Percent)<br>(a/b) | Covered<br>Payroll<br>(c) | UAAL as a<br>Percentage of<br>Covered<br>Payroll |
|--------------------------------|--|---|---------------------------------|------------------------------------|---------------------------|--|
| 12/31/02                       | \$ 31,681,327                          | \$ 24,793,616                                     | \$ (6,887,711)                  | 127.8                              | \$ 3,840,501              | 179.3  |
| 12/31/03                       | 32,112,528                             | 25,761,222  | (6,351,306)                     | 124.7                              | 3,993,163                 | 159.1  |
| 12/31/04                       | 32,090,371                             | 25,762,080  | (6,328,291)                     | 124.6                              | 3,996,822                 | 158.3  |
| 12/31/05                       | 32,277,585                             | 27,939,504  | (4,338,081)                     | 115.5                              | 4,162,066                 | 104.2  |
| 12/31/06                       | 32,505,226                             | 28,673,197  | (3,832,029)                     | 113.4                              | 3,933,310                 | 97.4   |
| 12/31/07                       | 33,894,127                             | 28,860,834  | (5,033,293)                     | 117.4                              | 4,052,300                 | 124.2  |

The schedule of employer contributions is as follows:

### Employees' Retirement System

| Fiscal Year Ended | Actuarial<br>Valuation Date | Annual Required<br>Contribution | Percentage<br>Contributed |
|-------------------|-----------------------------|---------------------------------|---------------------------|
| 6/30/03           | 12/31/01                    | \$ -                            | N/A                       |
| 6/30/04           | 12/31/02                    | -                               | N/A                       |
| 6/30/05           | 12/31/03                    | 2,671                           | 100                       |
| 6/30/06           | 12/31/04                    | -                               | N/A                       |
| 6/30/07           | 12/31/05                    | 95,731                          | 100                       |
| 6/30/08           | 12/31/06                    | 130,844                         | 100                       |

The information presented above was determined as part of the actuarial valuations at the dates indicated. Additional information as of December 31, 2007, the latest actuarial valuation, follows:

|                               |  |
|-------------------------------|--|
| Actuarial cost method         | Entry age for police patrol and fire, aggregate for all others |
| Amortization method           | Level percent open   |
| Remaining amortization period | 10 years   |
| Asset valuation method        | Open four-year smoothed market                                 |
| Actuarial assumptions:        |  |
| Investment rate of return     | 7.5%   |
| Projected salary increases*   | 4.5% - 12.8%   |
| *Includes inflation at        | 4.5%   |
| Cost of living adjustments    | 1.4% of the base pension for the first 10 years of retirement  |

## **Other Supplemental Information**

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# City of Owosso, Michigan

## Other Supplemental Information Budgetary Comparison Schedule Local Streets Fund Year Ended June 30, 2008

|   | Original<br>Budget   | Amended<br>Budget    | Actual               | Variance with<br>Amended<br>Budget |
|---|----------------------|----------------------|----------------------|------------------------------------|
| <b>Fund Balance</b> - Beginning of year                 | \$ 427               | \$ 427               | \$ 427               | \$ -                               |
| <b>Resources (Inflows)</b> - Local                      | <u>657,875</u>       | <u>724,600</u>       | <u>692,586</u>       | <u>(32,014)</u>                    |
| Amounts available for<br>appropriation                  | 658,302              | 725,027              | 693,013              | (32,014)                           |
| <b>Charges to Appropriations<br/>(Outflows)</b> - Local | <u>657,875</u>       | <u>724,600</u>       | <u>692,587</u>       | <u>32,013</u>                      |
| <b>Fund Balance</b> - End of year                       | <u><u>\$ 427</u></u> | <u><u>\$ 427</u></u> | <u><u>\$ 426</u></u> | <u><u>\$ (1)</u></u>               |

# City of Owosso, Michigan

## Other Supplemental Information Combining Balance Sheet - Nonmajor Governmental Funds June 30, 2008

|  | Nonmajor Special Revenue Funds |                     |                  |                    | Nonmajor Debt Service Funds               |   |   |   |   |
|--|--------------------------------|---------------------|------------------|--------------------|---|---|---|---|---|
|  | Local Streets                  | Revolving Loan      | Historical       | Public Improvement | 2008 Special Assessment Limited Tax Bonds | 2007 Special Assessment Limited Tax Bonds | 2006 Special Assessment Limited Tax Bonds | 2004 Special Assessment Limited Tax Bonds | 2001 Special Assessment Limited Tax Bonds |
| <b>Assets</b>                              |                                |                     |                  |                    |   |   |   |   |   |
| Cash and investments                       | \$ -                           | \$ 121,622          | \$ 64,734        | \$ 844,628         | \$ -                                      | \$ -                                      | \$ -                                      | \$ -                                      | \$ 10,232                                 |
| Special assessments receivable             | 180,881                        | -                   | -                | -                  | -   | -   | -   | -   | 6,642                                     |
| Accounts receivable                        | -                              | 3,129               | 508              | -                  | -   | -   | -   | -   | -   |
| Loans receivable                           | -                              | 616,506             | -                | -                  | -   | -   | -   | -   | -   |
| Due from other funds                       | 56,515                         | 317,122             | -                | -                  | -   | -   | -   | -   | -   |
| Due from other governmental units          | 42,928                         | 21,162              | -                | -                  | -   | -   | -   | -   | -   |
| <b>Total assets</b>                        | <b>\$ 280,324</b>              | <b>\$ 1,079,541</b> | <b>\$ 65,242</b> | <b>\$ 844,628</b>  | <b>\$ -</b>                               | <b>\$ -</b>                               | <b>\$ -</b>                               | <b>\$ -</b>                               | <b>\$ 16,874</b>                          |
| <b>Liabilities and Fund Balances</b>       |                                |                     |                  |                    |   |   |   |   |   |
| <b>Liabilities</b>                         |                                |                     |                  |                    |   |   |   |   |   |
| Accounts payable                           | \$ 4,428                       | \$ 47,404           | \$ 289           | \$ -               | \$ -                                      | \$ -                                      | \$ -                                      | \$ -                                      | \$ -                                      |
| Accrued and other liabilities              | 523                            | -                   | 433              | -                  | -   | -   | -   | -   | -   |
| Due to other funds                         | 94,066                         | -                   | 7,224            | -                  | -   | -   | -   | -   | -   |
| Due to other governmental units            | -                              | 2,150               | -                | -                  | -   | -   | -   | -   | -   |
| Deferred revenue                           | 180,881                        | -                   | -                | -                  | -   | -   | -   | -   | 6,642                                     |
| <b>Total liabilities</b>                   | <b>279,898</b>                 | <b>49,554</b>       | <b>7,946</b>     | <b>-</b>           | <b>-</b>                                  | <b>-</b>                                  | <b>-</b>                                  | <b>-</b>                                  | <b>6,642</b>                              |
| <b>Fund Balances</b>                       |                                |                     |                  |                    |   |   |   |   |   |
| Reserved                                   | -                              | 616,506             | -                | -                  | -   | -   | -   | -   | -   |
| Unreserved                                 | 426                            | 413,481             | 57,296           | 844,628            | -   | -   | -   | -   | 10,232                                    |
| <b>Total fund balances</b>                 | <b>426</b>                     | <b>1,029,987</b>    | <b>57,296</b>    | <b>844,628</b>     | <b>-</b>                                  | <b>-</b>                                  | <b>-</b>                                  | <b>-</b>                                  | <b>10,232</b>                             |
| <b>Total liabilities and fund balances</b> | <b>\$ 280,324</b>              | <b>\$ 1,079,541</b> | <b>\$ 65,242</b> | <b>\$ 844,628</b>  | <b>\$ -</b>                               | <b>\$ -</b>                               | <b>\$ -</b>                               | <b>\$ -</b>                               | <b>\$ 16,874</b>                          |

(Continued on next page)

# City of Owosso, Michigan

## Other Supplemental Information Combining Balance Sheet - Nonmajor Governmental Funds (Continued) June 30, 2008

|  | Nonmajor Debt Service Funds                        |  |  |  |  |                                     |                                     |                                     | Nonmajor<br>Capital Projects<br>Fund |   |
|--|--|--|--|--|--|-------------------------------------|-------------------------------------|-------------------------------------|--------------------------------------|---|
|  | 2000 Special<br>Assessment<br>Limited Tax<br>Bonds | 1999 Special<br>Assessment<br>Limited Tax<br>Bonds | 1998 Special<br>Assessment<br>Limited Tax<br>Bonds | 1997 Special<br>Assessment<br>Limited Tax<br>Bonds | 1996 Special<br>Assessment<br>Limited Tax<br>Bonds | 1994 General<br>Obligation<br>Bonds | 1990 Building<br>Authority<br>Bonds | 1992 Building<br>Authority<br>Bonds | Building Authority                   | Total Nonmajor<br>Governmental<br>Funds |
| <b>Assets</b>                          |  |  |  |  |  |                                     |                                     |                                     |                                      |   |
| Cash and investments                   | \$ 19,135  | \$ 6,383   | \$ 3,302   | \$ -   | \$ 18  | \$ -                                | \$ -                                | \$ 12,440                           | \$ -                                 | \$ 1,082,494                            |
| Special assessments receivable         | 11,147   | 5,055  | -  | -  | -  | -                                   | -                                   | -                                   | -                                    | 203,725                                 |
| Accounts receivable                    | -  | -  | -  | -  | -  | -                                   | -                                   | -                                   | 63,246                               | 66,883                                  |
| Loans receivable                       | -  | -  | -  | -  | -  | -                                   | -                                   | -                                   | -                                    | 616,506                                 |
| Due from other funds                   | -  | -  | -  | -  | -  | 33                                  | 112,929                             | 364,502                             | 8,371                                | 859,472                                 |
| Due from other governmental units      | -  | -  | -  | -  | -  | -                                   | -                                   | -                                   | -                                    | 64,090                                  |
| Total assets                           | <u>\$ 30,282</u>                                   | <u>\$ 11,438</u>                                   | <u>\$ 3,302</u>                                    | <u>\$ -</u>  | <u>\$ 18</u>                                       | <u>\$ 33</u>                        | <u>\$ 112,929</u>                   | <u>\$ 376,942</u>                   | <u>\$ 71,617</u>                     | <u>\$ 2,893,170</u>                     |
| <b>Liabilities and Fund Balances</b>   |  |  |  |  |  |                                     |                                     |                                     |                                      |   |
| <b>Liabilities</b>                     |  |  |  |  |  |                                     |                                     |                                     |                                      |   |
| Accounts payable                       | \$ -   | \$ -   | \$ -   | \$ -   | \$ -   | \$ -                                | \$ -                                | \$ -                                | \$ -                                 | \$ 52,121                               |
| Accrued and other liabilities          | -  | -  | -  | -  | -  | -                                   | -                                   | -                                   | -                                    | 956                                     |
| Due to other funds                     | -  | -  | 2,045  | -  | -  | -                                   | -                                   | -                                   | -                                    | 103,335                                 |
| Due to other governmental units        | -  | -  | -  | -  | -  | -                                   | -                                   | -                                   | -                                    | 2,150                                   |
| Deferred revenue                       | 11,147   | 5,055  | -  | -  | -  | -                                   | -                                   | -                                   | 63,246                               | 266,971                                 |
| Total liabilities                      | 11,147   | 5,055  | 2,045  | -  | -  | -                                   | -                                   | -                                   | 63,246                               | 425,533                                 |
| <b>Fund Balances</b>                   |  |  |  |  |  |                                     |                                     |                                     |                                      |   |
| Reserved                               | -  | -  | -  | -  | -  | -                                   | -                                   | -                                   | -                                    | 616,506                                 |
| Unreserved                             | 19,135   | 6,383  | 1,257  | -  | 18   | 33                                  | 112,929                             | 376,942                             | 8,371                                | 1,851,131                               |
| Total fund balances                    | 19,135   | 6,383  | 1,257  | -  | 18   | 33                                  | 112,929                             | 376,942                             | 8,371                                | 2,467,637                               |
| Total liabilities and<br>fund balances | <u>\$ 30,282</u>                                   | <u>\$ 11,438</u>                                   | <u>\$ 3,302</u>                                    | <u>\$ -</u>  | <u>\$ 18</u>                                       | <u>\$ 33</u>                        | <u>\$ 112,929</u>                   | <u>\$ 376,942</u>                   | <u>\$ 71,617</u>                     | <u>\$ 2,893,170</u>                     |

# City of Owosso, Michigan

## Other Supplemental Information Combining Statement of Revenue, Expenditures, and Changes in Fund Balances - Nonmajor Governmental Funds Year Ended June 30, 2008

|  | Nonmajor Special Revenue Funds |                     |                  |                    | Nonmajor Debt Service Funds               |   |   |   |   |
|--|--------------------------------|---------------------|------------------|--------------------|---|---|---|---|---|
|  | Local Streets                  | Revolving Loan      | Historical       | Public Improvement | 2008 Special Assessment Limited Tax Bonds | 2007 Special Assessment Limited Tax Bonds | 2006 Special Assessment Limited Tax Bonds | 2004 Special Assessment Limited Tax Bonds | 2001 Special Assessment Limited Tax Bonds |
| <b>Revenue</b>                                     |                                |                     |                  |                    |   |   |   |   |   |
| Property taxes                                     | \$ -                           | \$ -                | \$ -             | \$ -               | \$ -                                      | \$ -                                      | \$ -                                      | \$ -                                      | \$ -                                      |
| State and local sources                            | 274,402                        | -                   | 29,883           | -                  | -   | -   | -   | -   | -   |
| Interest income                                    | -                              | 1,193               | 2,345            | -                  | -   | -   | -   | -   | 568                                       |
| Special assessments                                | 43,326                         | -                   | -                | -                  | -   | -   | -   | -   | 3,947                                     |
| Other  | -                              | 55,371              | 8,455            | -                  | -   | -   | -   | -   | -   |
| Total revenue                                      | 317,728                        | 56,564              | 40,683           | -                  | -   | -   | -   | -   | 4,515                                     |
| <b>Expenditures</b>                                |                                |                     |                  |                    |   |   |   |   |   |
| Current:   |                                |                     |                  |                    |   |   |   |   |   |
| Other  | -                              | -                   | 1,719            | -                  | -   | -   | -   | -   | -   |
| Preservation and maintenance                       | 666,389                        | -                   | 25,592           | -                  | -   | -   | -   | -   | -   |
| General and administrative                         | 26,198                         | 4,228               | 27,102           | -                  | -   | -   | -   | -   | -   |
| Debt service                                       | -                              | -                   | -                | -                  | -   | -   | -   | -   | 16,173                                    |
| Total expenditures                                 | 692,587                        | 4,228               | 54,413           | -                  | -   | -   | -   | -   | 16,173                                    |
| <b>Excess of Revenue Over (Under) Expenditures</b> | (374,859)                      | 52,336              | (13,730)         | -                  | -   | -   | -   | -   | (11,658)                                  |
| <b>Other Financing Sources (Uses) -</b>            |                                |                     |                  |                    |   |   |   |   |   |
| Transfers  | 374,858                        | -                   | 21,500           | -                  | -   | -   | -   | -   | -   |
| <b>Net Change in Fund Balances</b>                 | (1)                            | 52,336              | 7,770            | -                  | -   | -   | -   | -   | (11,658)                                  |
| <b>Fund Balances - Beginning of year</b>           | 427                            | 977,651             | 49,526           | 844,628            | -   | -   | -   | -   | 21,890                                    |
| <b>Fund Balances - End of year</b>                 | <u>\$ 426</u>                  | <u>\$ 1,029,987</u> | <u>\$ 57,296</u> | <u>\$ 844,628</u>  | <u>\$ -</u>                               | <u>\$ -</u>                               | <u>\$ -</u>                               | <u>\$ -</u>                               | <u>\$ 10,232</u>                          |

(Continued on next page)

# City of Owosso, Michigan

## Other Supplemental Information Combining Statement of Revenue, Expenditures, and Changes in Fund Balances - Nonmajor Governmental Funds (Continued) Year Ended June 30, 2008

|  | Nonmajor Debt Service Funds                        |  |  |  |  |                                     |                                  | Nonmajor<br>Capital Projects<br>Fund |  |
|--|--|--|--|--|--|-------------------------------------|----------------------------------|--------------------------------------|--|
|  | 2000 Special<br>Assessment<br>Limited Tax<br>Bonds | 1999 Special<br>Assessment<br>Limited Tax<br>Bonds | 1998 Special<br>Assessment<br>Limited Tax<br>Bonds | 1997 Special<br>Assessment<br>Limited Tax<br>Bonds | 1996 Special<br>Assessment<br>Limited Tax<br>Bonds | 1994 General<br>Obligation<br>Bonds | 1990 Building<br>Authority Bonds | 1992 Building<br>Authority<br>Bonds  | Total<br>Nonmajor<br>Governmental<br>Funds |
| <b>Revenue</b>   |  |  |  |  |  |                                     |                                  |                                      |  |
| Property taxes   | \$ -   | \$ -   | \$ -   | \$ -   | \$ -   | \$ 81,775                           | \$ -                             | \$ -                                 | \$ 81,775                                  |
| State and local sources                                | -  | -  | -  | -  | -  | -                                   | 129,883                          | -                                    | 434,168                                    |
| Interest income  | -  | 8,986  | -  | -  | -  | -                                   | -                                | 50                                   | 21,513                                     |
| Special assessments                                    | 6,631  | 6,272  | 2,725  | -  | -  | -                                   | -                                | -                                    | 62,901                                     |
| Other  | 932  | 674  | 163  | -  | -  | -                                   | -                                | -                                    | 65,595                                     |
| Total revenue  | 7,563  | 15,932   | 2,888  | -  | -  | 81,775                              | 129,883                          | 50                                   | 665,952                                    |
| <b>Expenditures</b>                                    |  |  |  |  |  |                                     |                                  |                                      |  |
| Current:   |  |  |  |  |  |                                     |                                  |                                      |  |
| Other  | -  | -  | -  | -  | -  | -                                   | -                                | -                                    | 1,719                                      |
| Maintenance  | -  | -  | -  | -  | -  | -                                   | -                                | -                                    | 691,981                                    |
| General and administrative                             | -  | -  | -  | -  | -  | -                                   | -                                | -                                    | 57,528                                     |
| Debt service   | 18,202   | 26,851   | 843  | 27,786   | 3,070  | 81,755                              | 129,883                          | -                                    | 304,563                                    |
| Total expenditures                                     | 18,202   | 26,851   | 843  | 27,786   | 3,070  | 81,755                              | 129,883                          | -                                    | 1,055,791                                  |
| <b>Excess of Revenue Over (Under)<br/>Expenditures</b> | (10,639)   | (10,919)   | 2,045  | (27,786)   | (3,070)  | 20                                  | -                                | 50                                   | (389,839)                                  |
| <b>Other Financing Sources (Uses) -</b>                |  |  |  |  |  |                                     |                                  |                                      |  |
| Transfers  | -  | -  | (2,045)  | -  | -  | -                                   | -                                | -                                    | 394,313                                    |
| <b>Net Change in Fund Balances</b>                     | (10,639)   | (10,919)   | -  | (27,786)   | (3,070)  | 20                                  | -                                | 50                                   | 4,474                                      |
| <b>Fund Balances - Beginning of year</b>               | 29,774   | 17,302   | 1,257  | 27,786   | 3,088  | 13                                  | 112,929                          | 376,892                              | 2,463,163                                  |
| <b>Fund Balances - End of year</b>                     | <u>\$ 19,135</u>                                   | <u>\$ 6,383</u>                                    | <u>\$ 1,257</u>                                    | <u>\$ -</u>  | <u>\$ 18</u>                                       | <u>\$ 33</u>                        | <u>\$ 112,929</u>                | <u>\$ 376,942</u>                    | <u>\$ 2,467,637</u>                        |

# **City of Owosso, Michigan**

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**Report to the City Council**

**June 30, 2008**

**Plante & Moran, PLLC**

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East Lansing, MI 48823  
Tel: 517.332.6200  
Fax: 517.332.8502  
plantemoran.com

To the City Council  
City of Owosso, Michigan

We have recently completed our audit of the basic financial statements of the City of Owosso, Michigan (the "City") for the year ended June 30, 2008. In addition to our audit report, we are providing the following report on internal control, results of the audit, and informational comments which impact the City:

|   | <u>Page</u> |
|---|-------------|
| <b>Report on Internal Control</b>                 | 1-2         |
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| FACT Act  | 11-12       |
| Other Legislative Items                           | 12-13       |

We are grateful for the opportunity to be of service to the City of Owosso, Michigan. Should you have any questions regarding the comments in this report, please do not hesitate to call.

*Plante & Moran, PLLC*

December 8, 2008

## **Report on Internal Control**

December 8, 2008

To the City Council  
City of Owosso, Michigan

Dear Council Members:

Beginning with last year's audit, national auditing standards call for auditors to communicate matters to the governing body that may be useful in its oversight of the City's financial management. Specifically, they require us to report internal control issues to the governing body that may be relatively minor, in order to allow it to evaluate their significance, and make any changes it may deem appropriate. In general, these are items that would have been discussed orally with management in the past. The purpose of these new standards is to allow the governing body an opportunity to discuss issues when they are relatively minor, rather than waiting until they become more serious problems. We hope this report on internal control will be helpful to you, and we look forward to being able to discuss any questions you may have concerning these issues.

In planning and performing our audit of the financial statements of the City of Owosso, Michigan as of and for the year ended June 30, 2008, in accordance with auditing standards generally accepted in the United States of America, we considered the City's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we do not express an opinion on the effectiveness of the City's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. However, as discussed below, we identified a certain deficiency in internal control that we consider to be a significant deficiency.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the following deficiency to be a significant deficiency in internal control.



December 8, 2008

- During our audit of the Water and Sewer Funds, we noted that the City had not considered recording the receivable and revenue related to the amount of water and sewer services that had been used after all meters had been read at June 30, commonly referred to as “unbilled” amounts. In the current year, these amounts were evaluated and management determined that their effects were immaterial both individually and in the aggregate to the financial statements. We recommend that in future years, the amount of unbilled revenue be recorded in the general ledger prior to the audit.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control. We do not believe that the above deficiency constitutes a material weakness.

This communication is intended solely for the information and use of management, the City Council, and others within the City and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

**Plante & Moran, PLLC**



David Helisek, CPA  
Partner



Shaun M. Krick, CPA  
Associate

## **Results of the Audit**

December 8, 2008

To the City Council  
City of Owosso, Michigan

We have audited the financial statements of the City of Owosso, Michigan for the year ended June 30, 2008 and have issued our report thereon dated December 8, 2008. Professional standards require that we provide you with the following information related to our audit.

### **Our Responsibility Under U.S. Generally Accepted Auditing Standards**

As stated in our engagement letter dated September 26, 2008, our responsibility, as described by professional standards, is to express an opinion about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles. We are responsible for planning and performing the audit to obtain reasonable, but not absolute, assurance that the financial statements are free of material misstatement. As part of our audit, we considered the internal control of the City of Owosso, Michigan. Our consideration of internal control was solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

We are responsible for communicating significant matters related to the audit that are, in our professional judgment, relevant to your responsibilities in overseeing the financial reporting process. However, we are not required to design procedures specifically to identify such matters and our audit of the financial statements does not relieve you or management of your responsibilities.

### **Planned Scope and Timing of the Audit**

We performed the audit according to the planned scope and timing previously communicated to you in our meeting about planning matters on November 4, 2008.

## **Significant Audit Findings**

### ***Qualitative Aspects of Accounting Practices***

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by City of Owosso, Michigan are described in Note I to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during 2008.

We noted no transactions entered into by the City during the year for which there is a lack of authoritative guidance or consensus.

There are no significant transactions that have been recognized in the financial statements in a different period than when the transaction occurred.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the financial statements were:

- Self-insured liability for general claims and workers' compensation claims, as disclosed in Note 9.
- Valuation of actuarial accrued liability for pension benefits as disclosed in Note 10.

Management's estimates of the above items were based on historical results and an actuarial valuation, respectively. We evaluated the key factors and assumptions used to develop these estimates in determining that they are reasonable in relation to the financial statements taken as a whole.

The disclosures in the financial statements are neutral, consistent, and clear. Certain financial statement disclosures are particularly sensitive because of their significance to financial statement users.

### ***Difficulties Encountered in Performing the Audit***

We encountered no significant difficulties in dealing with management in performing and completing our audit.

### ***Corrected and Uncorrected Misstatements***

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. There were no material misstatements detected as a result of audit procedures which had to be corrected by management. The following paragraph summarizes uncorrected misstatements of the financial statements. Management has determined that their effects are immaterial, both individually and in the aggregate, to the financial statements taken as a whole.

Within the General Fund and governmental activities, the uncorrected adjustments were to record unbilled receivables for 14 days of service, deferred revenue, and adjustments to billings, all related to ambulance services. Within the Water and Sewer Funds and the business-type activities, the uncorrected adjustments were to record unbilled receivables related to approximately 10 days of usage.

### ***Disagreements with Management***

For the purpose of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

### ***Management's Representations***

We have requested certain representations from management that are included in the management representation letter dated December 8, 2008.

### ***Management's Consultations with Other Independent Accountants***

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the organization's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

### ***Other Audit Findings or Issues***

In the normal course of our professional association with the City, we generally discuss a variety of matters, including the application of accounting principles and auditing standards, business conditions affecting the City, and business plans and strategies that may affect the risks of material misstatement. None of the matters discussed resulted in a condition of our retention as the City's auditors.

To the City Council  
City of Owosso, Michigan

December 8, 2008

This information is intended solely for the use of the City Council and management of the City of Owosso, Michigan and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

**Plante & Moran, PLLC**

A handwritten signature in black ink, appearing to read "David Helisek".

David Helisek, CPA  
Partner

A handwritten signature in black ink, appearing to read "Shaun M. Krick".

Shaun M. Krick, CPA  
Associate

## **Informational**

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### Revenue Sharing

The governor released her proposal of the State's fiscal year 2009 budget (for the year ending September 30, 2009) originally in February 2008. Over the course of budget deliberations in the spring and early summer, the legislature further debated the level of the revenue-sharing funding, resulting in a compromise by the Senate and House to fund revenue sharing equal to the projected fiscal year 2008 (fiscal year ended September 30, 2008) amounts, plus provide an increase of 2 percent of the statutory portion of revenue sharing received in FY 2007. This proposal was presented to the governor on July 25, and enacted in mid-August.

While the projection is for an overall increase of 0.75 percent (for cities, villages, and townships), the impact will not be evenly distributed between all local units. Remember, the 2 percent increase is for the statutory portion only - not the constitutional portion. The intent is for the total revenue sharing (constitutional plus statutory) in FY 2009 to equal the total of constitutional and statutory revenue sharing received in FY 2008, plus an additional payment equal to 2 percent of the FY 2007 statutory revenue sharing received by the local unit. That may mean that for those units (primarily townships) that now receive no statutory revenue sharing, total revenue sharing projected for FY 2009 will be identical to the amounts received in FY 2008. We are awaiting a final distribution table from the Michigan Department of Treasury.

The governor's proposed budget also included \$2.4 million to restore state revenue-sharing payments for the six qualifying counties that will exhaust their revenue-sharing reserve funds in fiscal year 2008/2009. As you may remember, a reserve fund was created for each county in 2005 when the State eliminated counties from the revenue-sharing program (remember, counties only receive statutory revenue sharing, not constitutional). In 2005, counties were required to phase in the early collection of winter property tax payments and to create a reserve fund with a portion of these monies. Counties have been drawing on their reserve funds to replace lost statutory revenue sharing. When the reserve fund is depleted, counties will then look to the State to re-enter the statutory portion of the revenue-sharing program. Prior to their elimination from the revenue-sharing program in 2005, counties statewide received approximately \$182 million annually.

It is encouraging that this budget funds revenue sharing at a higher level than last year. As counties have started to come back into the formula, the legislature has budgeted this as an additional payment, rather than one that reduces distributions to the other local units of government. To a great extent, however, actual revenue-sharing distributions will depend on the stability of the State's budget, as well as the actual level of state tax collections. In addition, we need to remember that the statutory formula expired in 2007 and a new, permanent formula has not been enacted - please remember to remind your state representatives of the importance of extending this legislation.

# City of Owosso, Michigan

## Informational (Continued)

The table below details state-shared revenue for the City since 2000 broken out by statutory and constitutional portions:

| State Fiscal Year | Statutory  | Constitutional | Total        | Increase (Decrease)<br>from 2000 |
|-------------------|------------|----------------|--------------|----------------------------------|
| 2000              | \$ 907,454 | \$ 1,106,422   | \$ 2,013,876 | \$ -                             |
| 2001              | 1,155,336  | 1,019,650      | 2,174,986    | 161,110                          |
| 2002              | 1,113,939  | 1,030,038      | 2,143,977    | 130,101                          |
| 2003              | 1,012,315  | 1,047,476      | 2,059,791    | 45,915                           |
| 2004              | 815,144    | 1,036,099      | 1,851,243    | (162,633)                        |
| 2005              | 770,240    | 1,060,824      | 1,831,064    | (182,812)                        |
| 2006              | 731,805    | 1,078,885      | 1,810,690    | (203,186)                        |
| 2007              | 700,301    | 1,056,467      | 1,756,768    | (257,108)                        |
| 2008              | 665,028    | 1,091,740      | 1,756,768    | (257,108)                        |
| 2009 est.         | 698,421    | 1,072,353      | 1,770,774    | (243,102)                        |

If the State were to eliminate the statutory portion of revenue sharing (as the constitutional portion cannot be modified without a change to the State's constitution), the City has approximately \$665,000 at risk in its General Fund budget based on 2008 funding levels. In light of the current environment, we strongly encourage local governments to be conservative when budgeting or projecting the revenue-sharing line item.

### **Property Tax Developments**

The front page story several months ago is now old news. For many communities in Michigan, the challenging real estate market will negatively change the taxable value trends of recent years. Many communities saw modest declines in their 2008 taxable values, and if the downward trend in the housing market continues, the impact will be larger next year. How it will actually play out in each community and over what period of time remains to be seen. While each community will need to carefully determine the impact of the current environment on its budget, there are also several pieces of legislation in Lansing that will impact property taxes going forward. Examples include:

- House Bill 4215 (Public Act 96 of 2008) allows property owners to obtain two principal residence exemptions in certain situations. The bill was designed for situations where a homeowner has purchased a new home and is unable to sell the existing home. The dual exemption only applies if certain conditions are met (i.e., the property previously occupied is for sale, not occupied, not leased or available for lease, etc.).



- A series of bills were introduced in March 2007 as part of a package to stimulate home sales (House Bills 4440, 4441, and 4442). The lead bill of that package, House Bill 4440, establishes an 18-month moratorium on the “pop-up” or “uncapping” of taxable value to state equalized value at the time of sale or transfer of a property. Property sales or transfers occurring in the time frame of the moratorium would continue to pay property taxes at the previous taxable value amount. The “pop-up” or “uncapping” of taxable value would be delayed until the property was sold or transferred in later years. House Bill 4440 actually passed the House in March 2007 and is currently in the Michigan Senate.
- Many property owners continue to struggle with the concept that their individual taxable values actually increased during a time that overall property values - and even their individual property values - have fallen. As we all have re-learned in recent months, that is a constitutional requirement that changed with Proposal A in 1994. It may be helpful to remember the principle behind Proposal A - its purpose was to disconnect taxable values from market value increases, and instead limit the growth in taxable values to the lesser of 5 percent or inflation, until that point that the property transfers ownership. Now that the market values are declining in many areas, Proposal A continues to stay disconnected, and allows the taxable value to increase by the lesser of 5 percent or inflation (up until the point that it reconnects with market values).

Fairly or not, this year, many property owners said it did not feel right when they saw their taxable value increase by inflation when market value did not. This has led to a discussion as to whether a third variable, called “change in market value,” needs to be added to the Proposal A formula. In what some are calling a “super cap,” the Proposal A formula to determine annual increases in taxable value (if property is not sold or transferred) would be the lesser of three components: inflation, change in market value, or 5 percent. Therefore, if the market value of the parcel was either flat or declining - even if the taxable value of the particular parcel was less than state equalized value - there would be no annual increase. To date, a proposal to accomplish this change has not moved through the legislature. A change of this nature would impact local government budgets.

- As part of the changes to the single business tax last year and the introduction of the Michigan business tax, changes were also made to the calculation of tax rates applicable to industrial and commercial personal property taxes. As advertised, industrial personal property taxpayers received a reduction of the school operating mills (up to 18 mills) and the 6 mill state education tax. Commercial personal property taxpayers received a reduction of up to 12 school operating mills. However, if your community has a school district with “hold harmless” school mills, you must add back any hold harmless millage prior to computing the total mills to be levied. This may generate questions from commercial and industrial taxpayers.

# City of Owosso, Michigan

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## Informational (Continued)

- A Michigan Supreme Court case has changed how local governments can treat public service improvements by developers. Leading up to the court case, as private property owners or developers installed public service improvements (i.e., street lights, water and sewer lines, etc.) there was normally an increase in their property tax assessment. The Michigan Supreme Court upheld a Court of Appeals ruling that the installation of public service improvements does not constitute a taxable addition.

### **Change in Investment Act**

Public Act 213 of 2007, adopted at the end of 2007, requires local governments to perform their investment reporting quarterly to the governing body. The investment of surplus monies by Michigan local governments is controlled by Public Act 20 of 1943. The act previously required investment reporting annually. It is suggested that the required quarterly reports list investments by institution along with maturity dates and interest rates.

### **Revisions to State Transportation Funding Program**

Current legislation modified Act 51 to allow local governments to transfer monies from their Major Street Fund (MSF) to their Local Street Fund (LSF) at a level of 50 percent of annual major street funding received. In addition, greater than 50 percent can be transferred. However, the amended law requires that certain conditions be met to allow for a transfer in excess of 50 percent including the adoption of an asset management process for the major and local street systems as well as a detailed resolution passed by the City. It is important to note that major street monies transferred for use on local streets cannot be used for construction but may be used for preservation. Current legislation also includes a pilot program that would allow for the combination of the Major Street Fund and the Local Street Fund if certain conditions are met.

### **FACT Act**

The Fair and Accurate Credit Transactions Act was passed in 2003, with final regulations published at the end of 2007. These FTC rules, and more specifically the Red Flag Rules encompassed in them, may be applicable to municipal utility systems. The rules put in place as a measure to protect against identity theft, indicate that a “creditor” with a “covered account” must implement a written identity theft prevention program to detect, prevent, and mitigate identity theft in connection with the opening of a covered account or any existing covered account.

# City of Owosso, Michigan

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## Informational (Continued)

Under the rules, a creditor is defined very broadly, encompassing any entity that defers payment for goods and services, as defined under the Red Flag Rules. This most likely includes municipalities that “defer payments” by their utility customers when water, sewer, electric, gas, trash and the like are sold to customers day-by-day but are paid for at the end of the billing cycle.

The act would require written policies and procedures to be put in place to identify and follow up on red flags. Red flags, just as an example, would be the presentation by the customer of suspicious personal information that is inconsistent with external sources or suspicious documents provided for identification that appear to be alerted. The regulations appear to be flexible so that each government would have the ability to design an identity theft program that is tailored to its particular operation, given its size, technology currently utilized, and the perceived risk of identity theft in its community.

The current implementation date for this act is May 1, 2009. We encourage you to follow up with legal counsel if you believe this act may apply to your governmental unit.

### **Other Legislative Items**

- As part of Michigan’s new “Planning Enabling Act,” many local governments will now be required to prepare an annual “capital improvements program.” This new requirement is effective September 1, 2008. According to Public Act 33 of 2008, a planning commission, after the adoption of a master plan, shall annually prepare a capital improvements program of public structures and improvements. The law does allow that if the planning commission is exempt from this requirement, the legislative body shall prepare and adopt a capital improvements program or delegate this responsibility to the administration of the local unit for the ultimate approval by the legislative body. The law provides that the capital improvement program report public structures and improvements that, in the community’s judgment, will be needed or desirable within the next six years. The law also requires that the public structures and improvements included in the capital improvements program be prioritized. Townships that do not either individually or jointly own or operate a water supply or sewage disposal system are exempt from this requirement. In general, Plante & Moran strongly encourages the development of a capital plan. While the law is restricted to “public structures and improvements,” we strongly encourage the inclusion of all capital assets - vehicles, machinery and equipment, office furnishings, etc. In addition, we feel the participation of the governing body (in addition to or instead of) the planning commission is good public policy.

This same public act added several other requirements of planning commissions, including annual reporting by the planning commission to the legislative body along with the mandatory creation of a master plan.

- Multiple bills are pending in Lansing that would make changes to investment laws governing Michigan communities. Changes have been proposed to add different types of investments to what is commonly referred to as “Public Act 20,” which governs the investment of surplus operating monies. Changes are also being proposed to the laws governing the investment of retirement monies.
- A bill is pending in the Michigan Legislature regarding retainages held by governmental units. Retainages are a common method used by local governments in procurement, particularly in the area of construction contracts. The law change focuses on reducing the retainage amount that a local government could require and stipulate the payment of interest on these monies among other provisions.
- Efforts continue in the wake of the *Bolt* case to provide a means for local units of government to engage in rate making to finance the cost of utility operations, particularly that of storm water. Senate Bill 1249 has been introduced to address the tests included in the *Bolt* decision on whether a charge is really a fee or a tax.